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SOCIAL ACTION SERIES

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GOVERNMENT IN A PLANNED DEMOCRACY

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GOVERNMENT IN A PLANNED DEMOCRACY

A · N · HOLCOMBE

PROFESSOR OF GOVERNMENT, HARVARD UNIVERSITY
AUTHOR OF "THE NEW PARTY POLITICS," *etc.*



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FOREWORD

AMERICAN statesmanship in the past has been mainly the product of sectional politics. It has consisted not only in representing the special interests of the various politicians' particular sections, but also in finding formulæ which might bring together different sections in a common policy. In the future this kind of statesmanship will become more and more inadequate. Sectional politics tends to make way for class politics. The most serviceable kind of statesmanship will eventually be that which consists in representing the special interests of the different classes of people and in finding formulæ which may bring together different classes in a common policy.

Of such formulæ the most practicable and wholesome, I believe, is that which puts first the interests of the middle class. The reasons for this belief I have set forth in a previous volume of the Social Action Books entitled *The New Party Politics*. Summarily stated, these reasons are two in number. The first is, that middle-class politics makes for greater stability in the government of the modern industrial state than any other kind of class politics. By a modern industrial state I mean one in which the interests and attitudes of that part of the population employed in capitalistic industry

dominate the political scene. The chief rival systems of class politics, namely proletarian and fascist politics, are less favorable to the stability of the state, because they are more provocative of class struggle and less hospitable to the adjustment of the conflicting interests of the different classes by political methods without resort to physical force and violence. The second reason for preferring middle class to proletarian and fascist politics is that the former makes for a closer approximation to the ideal of justice in the conduct of public affairs. By justice I mean such an adjustment of the conflicting interests of the individuals and classes within the state as will best promote the common interests of the whole body of people. The rival systems of class politics either reject such an ideal of justice for the modern industrial state—as proletarian politicians are required to do by the Marxist political philosophy—or, like the Fascists, profess to accept the idea in principle but seem to put little value on it in practice.

The practical application of a middle-class political philosophy, however, calls for something more than the organization of middle-class political parties. It is not only the partisan determination of public policy but also the impartial and intelligent administration of public business that form the essential ingredients of sound middle-class politics. In the further development of American statesmanship, therefore, the maintenance of the supremacy of middle-class parties in the determination of public policy will not be enough. It will likewise be necessary to make adequate provision for the participation of impartial and efficient public business administrators in the conduct of public affairs.

The adaptation of American democracy to the requirements of the new age calls for the recognition of a

new profession, that of the public businessman, and for the establishment of his proper position in the organization of the state. If the kind of life made possible by modern science and technology is to be achieved, the American people must learn to appreciate the importance of skillful public business administration and of improvements in the art of government which will enable public business administrators to become more useful to the public. The American people must be willing to grant to the public businessman a greater share in the exercise of political power. How this new distribution of power might be arranged and why it should help to stabilize the state and establish a fairer justice are the matters to which this book is addressed.

A. N. H.

Cambridge, Mass.
December, 1934

**GOVERNMENT IN A
PLANNED DEMOCRACY**

THE EXPERIMENTAL ATTITUDE AND THE GOVERNMENTAL ART

THAT the development of the social sciences has not kept pace with the progress of the natural sciences is a matter of universal observation. In general the advance of science is the boast of the age, and the triumphs of technology sustain an unsteady faith in human intelligence. The invention and constant improvement of machines enhance the productive capacity of mankind, and the increasing employment of natural sources of power multiplies its meager native energy. In a multitude of ways man's more effective command over nature has transformed the material basis of Western civilization. The cultural forms of Western civilization have not escaped the influence of scientific and technological progress, but they have not developed at anything like a corresponding rate. The social sciences, especially the science of government, have manifestly lagged behind. Textbooks of physics and chemistry, biology and psychology, rewritten every few years, quickly get out of date, and engineers and technicians wage a constant struggle to keep up with the times. But government, even in the states whose peoples consider themselves most progressive, is still conducted in the main upon principles laid down in the nineteenth century or earlier, and students of political science continue to find

profit in reading Plato's *Republic* and Aristotle's *Politics*.

The backward state of the science of government, compared with the advanced condition of modern technology, makes a profound impression upon the thoughtful observer. If it were possible to increase the power of the state as mechanical power available for the service of man has been increased, and yet keep this highly-developed political power under popular control, the capacity of such a powerful state to enrich the life of the people would outstrip the imagination. But democratic peoples fear that such power would get out of control and be used for their exploitation, and hence prefer old-fashioned and comparatively weak forms of government to the powerful political machines which they might possess, if they dared to build them.

Detached observers sometimes see the weaknesses of a cultural system more clearly than those who belong to it. Such an observer was Sun Yat-sen, the Chinese revolutionary leader. In the course of an argument against the indiscriminate imitation of Western political methods in the Far East, he wrote:¹ "If we copy Western government as we are copying Western material science, we shall be making a great mistake." Dr. Sun's statement of the grounds for this opinion is interesting. Government, he declared,² is a "kind of invisible machine," and, continuing with the figure of speech, he added: "Visible machinery is built upon the laws of physics, while the invisible machinery of government is built upon the laws of psychology. Discoveries have been made in the field of physics for several hundred years, but the science of psychology began only twenty or thirty years ago and is

¹ *The Three Principles of the People*, Price's translation, p. 288.

² *Ibid.*, p. 291.

not yet very advanced. Hence this difference: in ways of controlling physical objects we should learn from the West, but in ways of controlling men we should not learn only from the West."

The extent to which the science of government has fallen behind the natural sciences and technology is difficult to measure. The measurement of technological progress itself is not easy. Some writers find the essence of such progress in the amazing advance in the control of natural forces. The technocrats, whose dazzling calculations of the energy resources of the American people secured for themselves a conspicuous, if fleeting, place in the national limelight, at least brought home to the general public an appreciation of the tremendous quantity of natural power now at the disposal of the machine-age man. A simple private in a modern army is master of a force sufficient to have crushed King Arthur and all the knights of his Round Table like empty egg-shells. A young girl sits behind the wheel of her father's V-8 or twin-six and with no more than the gentlest pressure of her toe releases the power of fifty or a hundred horses. A plain workman commands with his modest daily wage the equivalent of the services of scores of human slaves.

Lewis Mumford, in his illuminating recent book, *Technics and Civilization*, divides the development of the modern machine and the machine civilization into three successive, but overlapping and interpenetrating, phases: the eotechnic, the paleotechnic, and the neotechnic.³ Each of these phases represents roughly, Mumford thinks, a period of human history and is characterized by the fact that it forms a technological complex. Each phase, in his opinion, tends to employ certain

³ *Op. cit.*, p. 109.

special resources and raw materials, has its specific means of generating and utilizing energy, develops its special forms of production, and brings into existence particular types of workers. "Speaking in terms of power and characteristic materials, the eotechnic phase is a water-and-wood complex; the paleotechnic phase is a coal-and-iron complex; and the neotechnic phase is an electricity-and-alloy complex." ⁴ The Constitution of the United States was framed in a period still characterized by a water-and-wood technology. While the delegates to the Federal Convention were in Philadelphia, John Fitch exhibited his steamboat on the Delaware River. The delegates were invited to view the spectacle, but remained as before under the spell of the ideas of Locke and Montesquieu.

The neotechnic age, according to Mumford, has not yet clearly arrived. Just as some of the finest products of the eotechnic age, like the clipper-ship, did not appear until long after the invention of the steam-engine and the power-loom, so the characteristic features of the paleotechnic age contend for supremacy in our time with the technical achievements which are harbingers of the electricity-and-alloy age. But the process of invention goes on, and ever-wider circles of mankind are won over to the experimental attitude towards the physical world. In dealing with material things, the modern man is an empiricist. While mindful of the teachings of experience set forth in the record of past experimentation, he is resolved upon a course of further experimentation, filled with hope for the further advancement of science and technology. The particular neotechnic age envisaged by Mumford may never come to maturity. But a neotechnic age of some sort, the modern-minded man is bound to

⁴ *Ibid.*, p. 110.

suppose, will eventually be found to have arrived. Then it is inevitable that some one should inquire, why not a neotechnic age in politics as well as in mechanics? Why may not the experimental attitude, which has produced such spectacular results in dealing with the visible machinery of the material world, produce great improvements also in the invisible machinery of government?

One of the outstanding phenomena of the great depression has been the rediscovery by the American people of the value of the experimental attitude in politics. There have been other seasons before 1933 when its application to the problems of government has been fashionable. But in a period of profound depression a bold assumption of the experimental attitude by the President of the United States was a sensational development. Mr. Roosevelt's frank avowal that many of his proposals for recovery were experiments, to be set aside, if unsuccessful, for others more promising, caught the popular imagination. The President likened himself to the quarterback of a football team, who calls for a plunge through the line, and, if that does not gain ground, is prepared to try a run around the end or a forward pass. The experimental attitude is not necessarily a revolutionary attitude, but it calls for a reasonable spirit of discontent and a vision of better things. It also calls for an open mind, a sanguine temper, a great deal of patience with technical details and persistence in the face of difficulties. It is an attitude which was revealed again in Mr. Roosevelt's message to the second session of the Seventy-third Congress. "Civilization cannot go back," he declared; "civilization must not stand still. We have undertaken new methods. It is our task to perfect, to improve, to alter when necessary, but in all cases to go forward."

Faith in the validity of the experimental attitude in the field of material things is strengthened by the apparent simplicity of the process of invention. An Edison conceives the idea that the passage of an electric current through a suitable conductor in a vacuum will give light for the service of man without consuming the conductor in its own flame. The process of inventing the electric lamp thereupon becomes a routine search for promising conductors and the selection of the most suitable by the process of trial and error. It is no reflection upon Edison's inventive genius that better materials than he was able to discover were eventually found for use in electric lamps. Inventors of course do not always hit upon a fruitful idea. Edison himself wasted quantities of time and material in the futile effort to make a storage battery which would be both light and powerful enough to drive an automobile fast and far. But we overlook the failures among the crowd of successes. The flow of new and promising ideas suggests the movement of a river, which grows ever greater as it moves further from its source. The important matter in the inventive process seems to be the supply of men with the patience and the technical skill to put the new ideas to a proper test.

By a natural association of ideas we are led to inquire whether in the realm of human relations also the experimental attitude might not be the means of great advances in the conduct of life. More specifically, the question arises, why should we not encourage the flow of new ideas concerning the conduct of public affairs and look to the method of trial and error for the improvement of government and politics? If the experimental attitude is a great asset of the American people in their treatment of material things, why should it not also be an asset in the development of their organized relations

with one another? If experimentation makes for progress in the physical world, will it not likewise make for progress in the political world?

The possibilities of improved service for mankind, if political power could be developed to anything like the extent to which mechanical power has been developed, stagger the imagination. The extent of these possibilities is best revealed by considering the nature of political power. It is necessary not to confuse it with organized physical force and official violence. The potency of modern military force has of course already been greatly increased by the progress of mechanical invention. Soldiers and policemen, as well as gangsters and racketeers, have profited by the improvements in high explosives and firing devices. But political power in the proper sense of the term is not the product of mechanical forces. It is the product of moral forces. The police power, for instance, means much more than the use of nightsticks and handcuffs in making arrests. It means the general power to insure tranquillity throughout the state by imposing restraints upon personal conduct in accordance with the due process of law. The essence of the power consists in the practical capacity to make a rational rule designed to protect a public interest. The enforcement of the rule, once it has been made, depends much more upon the moral sentiment of the public than upon official force and violence. It depends upon the intelligence and character of public officers rather than upon their command of material weapons of coercion.

Some of the possibilities of improved service by a high-powered government are easy to imagine. For example, there is the problem of banditry and kidnaping. The defense of the public against bandits and kidnapers

is intrusted in the first instance to the local police authorities, that is, the uniformed police in cities, and elsewhere chiefly to the county sheriffs and their deputies. Now these areas of local government were laid out under the influence of political ideas which originated in the middle ages. Their size was determined by the methods of locomotion which existed at the time. In the beginning an English county seems to have been roughly the area which could be traversed by a man on horseback from any point of the periphery to the county seat and back again in a single day. The area of a village was so bounded that a man could go on foot from his residence in the center to the most remote field and return in the same period of time. But now men travel in automobiles and airplanes, and communicate by telephone and radio, and the boundaries once appropriate for local administrative areas are hopelessly out of date. The law-breaker can get hundreds of miles from the scene of his crime in a day, while the officer set to catch him must give up the chase within the hour in which he starts, or he will get outside his jurisdiction. In default of an expansion of the areas of police administration to fit the advance in the methods of locomotion, slow and cumbersome arrangements for coöperation between police officers in different localities have to be improvised. A low-powered horseback and stage-coach type of local administration struggles to keep pace with a high-powered motorized system of criminal locomotion. A high-powered government would be one in which the administrative areas were adjusted to the mechanized mobility of mankind. Such a government would require many changes in the organization of administrative agencies. Among the changes one of the most obvious would be the replacement of counties and states, re-

garded as administrative areas, by areas better suited to the material circumstances of life in a high-powered mechanical age.

It is easy to see what an anachronism a horse-power system of local police administration has become in an era of gasoline engines, machine-guns, and high explosives, because the local police have to deal largely with physical problems. It is not so easy to see how antiquated our political system is in its dealings with problems which lie out of the sight of the average man, and largely also out of the range of his ordinary thinking.

Take, for instance, the problem of economic planning. The great depression has revealed with shocking clarity the unsoundness of an economic system which leaves the adjustment between the output of goods and the wants of mankind to the unregulated or casually regulated operations of industrial leaders motivated by a desire for profits. While crops rot in the fields, millions go hungry; while warehouses burst with the products of mills and factories, millions are in rags; while industrial resources adequate to provide decent shelter for all stand idle, millions huddle in slums. While men and women able and willing to work for a living, eagerly and vainly seek employment, incredible quantities of work wait to be done. The utilization of the human resources of the nation cries aloud for better planning. But comprehensive economic planning on a national scale is an exacting task. It calls for a national government with power to command the services of the ablest thinkers and organizers in the country, with power to obtain copious and exact up-to-date information concerning all the wants of the people and the means of supplying them, with power to direct the energies of

businessmen and workers into the proper channels, and to force the postponement of to-day's pleasures for the sake of a more adequate provision for distant needs; in short, with power to organize the thought, the will, and the happiness of a nation. A government possessing such vast powers would be capable, if it could use them wisely, of rendering services of unprecedented value to its people. Men may fear to create such a high-powered government, lest it get out of control and turn upon those it was designed to serve and destroy their freedom. But there can be no question of the incalculable loss to the men of this high-powered machine age which has been inflicted by their inability to strengthen their governments and adapt their political systems to the development of other forms of power.

Evidently there are splendid opportunities in the modern state for the political inventor. It is not necessary to believe that comprehensive economic planning is within the range of immediate feasibility, or even that the abolition of banditry and kidnaping can be an early achievement. It is enough to believe that immense possibilities of political invention exist wherever modern-minded men are striving to deal more effectively with these problems. The fundamental political problem is to adapt a low-powered handicraft system of government to the requirements of a high-powered machine age.

We know that political inventions have been made in the past which have greatly increased the power of the rulers of modern states and made them much more competent to deal effectively with the new problems confronting them. The most conspicuous of such inventions have been constitutionalism and federalism. The device of constitutionalism, that is, the creation of con-

stitutional limitations upon the authority of public officers, and particularly the enforcement of such limitations upon legislative and executive authorities by the courts of law, has made it safe to permit these authorities to bear a more potent sway than the arbitrary and so-called absolute rulers whom they superseded. Federalism extended the sway of constitutional rulers over areas far broader than would otherwise have been practicable. Ivan the Terrible and Suleiman the Magnificent may have lorded over the attendants at their courts and the inhabitants of the districts actually occupied by their armies, but only a Woodrow Wilson could take all the able-bodied young men of a country from their homes for military service, or the bulk of the earnings of the rich from their pockets for the public treasury, without resort to violence and without impairment of industrial vigor. Such extraordinary political inventions as federalism and constitutionalism are not to be expected often. But lesser inventions may have incalculable cumulative effects in strengthening the practical capacity of modern governments to serve the public. It is not surprising that President Roosevelt's frank display of the experimental attitude, and his candid avowal that, if one experiment should work badly, he would promptly inform the public and then try another, should have been received with general satisfaction by the American people.

Unfortunately there are many difficulties in the way of applying the experimental method to the improvement of the structures and processes of government and to the development of its power.

In the first place, the nature of invention is not so simple as it may seem. The Wright brothers, for instance, are commonly credited with the invention of

the airplane. But what was it precisely that the Wright brothers invented? They did not invent the plane itself nor the art of flying heavier-than-air structures by the ingenious balancing of weights against wind pressure. Every boy who ever flew a kite understood the essentials of that art. The Wrights were not the first to adopt a rigid combination of wings and power plant, instead of the flapping arrangement suggested by the flight of birds. Nor did they invent the internal combustion engine, combining great power with little weight, thus making flying machines practicable. It is hard to imagine an airplane, driven by a steam engine and dragging a coal car behind its tail. Evidently the invention of the airplane required the coöperation of numerous and in part nameless experimenters through the ages. But the Wright brothers did contribute something which made all the difference between success and failure under the conditions of their time. They devised an efficient mechanism for warping the tips of the wings and thus maintaining the stability of their flying-machine in the air. That is all we mean when we say that they invented the airplane. They also did something else perhaps no less important in the history of aviation. They taught themselves how to fly without breaking their necks in the process of learning. This made it possible for them to perfect their invention and demonstrate its practicability to the public. Incidentally their success demonstrated also the complexity of the process of invention.

Now the state is a more complicated structure than an airplane and the art of government is more difficult than flying. Anybody, to be sure, who can read and write can mark a ballot, and in many states the task is made easier for the voter by supplying a ballot with

birds and stars and other first aids for the incompetent. But not everybody can draft a desirable new law, and still fewer can devise suitable machinery for the administration of such a law. It is no light matter to lay hands upon the machinery of government in a modern state, in the hope that by a bit of tinkering here and there its efficiency may be greatly increased.

Yet it is undeniable that the means are already available for great advances in the art of government. For instance, modern methods of publicity and propaganda provide some of the materials for far more powerful states than have ever existed. The cheap press, the movie and talkie, the radio, the new psychology, enable the statesman, the politician, the demagogue, and the vulgar rabble-rouser to arrest the attention of the multitude more quickly than the Founding Fathers in their wildest dreams could have believed possible. Having secured the attention of the multitude, the statesman or rabble-rouser can proceed to arouse their interest, stimulate their desire, and crystallize their decision with a rapidity and upon a scale hitherto unknown. These possibilities make for the generation of unprecedented quantities of political power.

But what to do with all this power when generated, and how to keep it under public control, are questions so baffling that they fill the ordinary man with dismay. Rather than create a high-powered state capable of rendering him services of unprecedented value, but also capable of getting out of control and inflicting grave injury upon him, the ordinary man is prone to prefer the existing state with its familiar, though limited, powers both for good and for evil. Precisely what improvements should be made in the structure and processes of government, in order that a high-powered

government may be safe as well as serviceable, is a question for political inventors of rare insight and technical skill. It may be that some apparently trivial innovation in the art of government, comparable to the device of warping the tips of the wings of the airplane in the development of flying, will enable the people of a modern state to view the possession of greatly increased quantities of political power by their rulers without alarm for their own safety. But at least this much is clear: the experimental attitude in politics calls for extraordinary confidence on the part of the public in the character and ability of the experimenter, or for extraordinary lack of confidence in the institutions which are to be experimented upon.

There is another difficulty which confronts the experimental attitude in the field of government and politics. This arises from the uncertainties of human nature itself. Scientific experimentation is based upon the assumption that the materials with which the experiment is conducted will always behave alike under similar conditions. Now the material of political experimentation is man himself. The data of politics, if we are to speak the language of natural scientists, are the acts of men. But men act from many motives, and there can be no certainty about their behavior in any particular case unless we can know the motivation of the men in the case. Social scientists, so-called, have been accustomed to get around this difficulty by assuming that in matters affecting their personal interests men will act in accordance with the dictates of a reasoned judgment concerning the interest affected. In other words, man, regarded as a political animal, is assumed to be a rational creature, despite the wealth of evidence showing that in the pursuit of power as in other pur-

suits men are often governed by sentiment and emotion. Men may take counsel of their fears as well as of their hopes, and under the impulse of a senseless panic or equally senseless enthusiasm do that which is most contrary to their true interest.

The effect of the uncertainties of human nature upon the course of a political experiment is well illustrated by the popular discussion of the devaluation of the dollar. It is generally agreed that there are few evils more injurious and demoralizing in a capitalistic age than arbitrary and unpredictable alterations in the standard of value. If people make their financial arrangements with one another in terms of dollars, it is highly important that the value of the dollar shall be fixed and uniform. A depreciating dollar, the sound money advocate never wearies of reminding us, inflicts a gross injustice upon the widow and orphan, whose living depends upon the purchasing power of an annuity from a life insurance company or of the interest upon some bonds in a safe deposit box. On the other hand, the farmer or businessman who has borrowed some money in order to improve his farm or develop his business may be ruined by an appreciating dollar. The importance of a stable measure of value has been deeply impressed upon the minds of our people during the vicissitudes of the dollar in the last twenty years. But what is a measure of value? Is it a certain quantity of metal, gold or silver, as the case may be, or is it a certain quantity of purchasing power?

Americans have been in the habit of using a dollar consisting of a definite quantity of metal, despite the injustice caused by its fluctuations in purchasing power, because they did not understand how to keep its purchasing power stable. Nevertheless, there can be no

doubt of the great superiority of a dollar with uniform purchasing power, if it is practicable to obtain such a dollar. But when it is proposed that the government should attempt to fix the purchasing power of the dollar and then keep it stable indefinitely, people differ in their opinion concerning the wisdom of such an experiment. One of the grounds for such differences of opinion is the uncertainty how those who have money will behave under the circumstances of such an experiment. One well-known expert in the problems of money and credit expressed a widespread conviction when he wrote ⁵ that "it is impossible, by artificial manipulation of the gold content of the dollar, to maintain a fixed level of commodity prices." "Human beings who use dollars," he believes, "simply will not stand still while the government or the central bank is putting through the manipulations. They will, on the contrary," he asserts, "inevitably, in order to protect their own interests, do things which will defeat the purpose of the government or the central bank." He sustains his conclusions by arguing that "the laws of money are not simple mechanical laws, subject to precise mathematical formulation. The laws of money are statements of the way in which human beings react when they are dealing with money. They are not made by government. They are not made by economists. They are discovered by economists through a study of the nature of the human mind, and through a study of the history of the behavior of men in dealing with money. . . ."

This is doubtless a correct analysis of the laws of money. Yet it may be that one can agree with the

⁵ Benjamin M. Anderson, Jr., "A Planned Economy and a Planned Price Level," in *The Chase Economic Bulletin*, Vol. XIII, No. 3 (June 9, 1933).

analysis without accepting the conclusion. Men will do one thing with their money, if they have confidence in the government which is responsible for the manipulations designed to stabilize its purchasing power. They will do something quite different, if they lack such confidence. What they will do therefore depends, at least in part, upon what they will believe, and what they will believe depends upon a multitude of considerations. President Roosevelt may not have uttered the whole of the truth in his Inaugural Address, when he declared that we have nothing to fear but fear itself. Yet he certainly set forth a very important, indeed an essential, part of the truth. Since the facts of human nature are inseparably involved in all political experimentation, it follows that the control of a particular experiment is much more difficult in the field of government and politics than in the field of the natural sciences. This consideration alone gives pause to many persons who maintain the experimental attitude in their dealings with material things but hesitate to extend it to the realm of human relations.

There is a third difficulty in the way of those who wish to carry the experimental attitude into the government of a modern state. This difficulty arises out of the limitations of the experimental process.

The ordinary method of experiment in the field of human relations must be by what we commonly call trial and error. But there is a great difference between the method of trial and error in the improvement of material things and the same method in the improvement of human relations. In the improvement of material things, if the experiment goes wrong and the experimenter spoils his material, he can throw it away and start afresh. But in the field of human relations

he cannot throw away spoiled material. In democratic countries the material is much more likely to throw the experimenter away, for the material consists of the experimenter's fellow-citizens, and the experimenter is ordinarily unable to try his experiment without first gaining the opportunity to do so by promising the people or their representatives a valuable improvement at no more than a reasonable cost. Failure tends to discredit the experimenter and may easily deprive him of the opportunity to try another experiment. When Edison failed to accomplish any impressive results by his experiments with electrically-driven automobiles, he turned his attention to something else and at the same time he diverted the interest of the public, as far as the public concerned itself with Edison's doings, to his new field of endeavor. The political inventor, however, cannot afford to fail. If he promises a big improvement in the government of a city through the introduction of, say, the manager plan or proportional representation in the municipal council, as he must do in order to persuade his fellow-citizens to try the experiment, he cannot expect an opportunity to try more experiments in that particular city unless a big improvement actually follows. If his calculations prove to have been erroneous, if it appears that he has aroused false hopes, he is likely to be condemned as an impostor and crank.

The man who carries the experimental attitude into public life hazards his political career upon the outcome of each experiment. If he is a prudent man, he is likely to agree with former Governor Alfred E. Smith, who wrote in *The New Outlook*, "I am for experience as against experiment." Of course Governor Smith did not really mean precisely what he said. He did not mean that he was opposed altogether to political experimen-

tation. His distinguished record as chief executive of the State of New York reveals him as a public man who did not hesitate to try many experiments with an eye to the improvement of state government. Probably all he meant was that he was unwilling to enter upon a course of experimentation lightly. He would insist upon strong reasons for desiring a change and good grounds for believing that the experiment might succeed. Certainly he meant that he would be much more hesitant than President Roosevelt in embarking upon bold experiments in fields where much must be risked in order that much may be gained. But there are many persons who would subscribe unreservedly to Governor Smith's statement in its most literal interpretation. Unsanguine by temperament, and not greatly discontented with their condition, they set themselves resolutely against all experimentation in the field of human relations, especially where their own interests are immediately concerned. The only experiments in which they believe are those which have already been made and finished.

The Tory spirit, which frowns inhospitably upon the experimental attitude in all its forms, was best expressed by Edmund Burke in his satirical essay, entitled "A Vindication of Natural Society." "Every endeavor," Burke wrote, without really intending to be believed, "which the art and policy of mankind has used from the beginning of the world until this day, in order to relieve or cure natural ills, has only served to introduce new mischiefs or to aggravate or inflame the old." This notion, that human efforts to improve the world in which we live are necessarily fruitless, however incompatible it may be with the experimental attitude, is doubtless a natural feeling on the part of those who

have been the victims of ill-conceived and unfortunate political experimentation. It is a notion that may fall out of fashion in times of great depression. But it must be reckoned with by politicians who are ambitious for lasting political careers.

It is not surprising to those who view the history of politics with a reflective eye that the demand for experimentation in the field of government should often be accompanied by a demand for dictatorship. A strong demand for the trial of experiments can only spring from great dissatisfaction with the existing conditions, including among others the political conditions standing in the way of bold and vigorous experimentation. Deliberative bodies, which spend precious time in apparently fruitless discussions; administrative officers, whose power to deal vigorously with a pressing emergency is checked by hampering and seemingly irresponsible associates; judges and courts of law, who can decide what cannot be done by others but are unable to do much themselves to relieve the emergency; all such political authorities weary the patience of a long-suffering public. They create the demand for rulers with power to act. And rulers who would initiate bold experiments must not be too dependent upon those upon whom they propose to experiment. It is not practicable that the subject of a surgical operation, once having consented to submit to the knife, should be free to rise from the operating table at any moment in the course of the operation and object to further proceedings, or even dictate a minor change in the nature of the operation. A controlled experiment upon the body politic means control by those who are going to perform the experiment, the head of the government and his associates, not by those who will be its subjects. It is

no easy task to rouse the members of the body politic to the point of submission to a major operation, and it is natural that those who possess the personal gifts requisite for leadership in such an enterprise should feel that they have been called to assume all the powers that may seem necessary for its success.

There is indeed much to be said in favor of one-man rule, especially that form of the institution in which the ruler is the head of an organized party, as in Russia, Italy, and Germany, and not merely a vulgar military dictator. Such a government, whatever may be its other defects, is likely to be more vigorously administered than ordinary governments-by-discussion, like those of Great Britain, France, or the United States. The man at the head of a dictatorial government is selected by a more exacting test than that applied to leaders of the British House of Commons or to the politicians whom national conventions may deem available for a party nomination for the Presidency. As Bagehot remarked years ago, he has to solve the most difficult of political problems: to keep the masses of the population contented, and at the same time to keep them in subjection. He is sure to be active, and to surround himself with active and efficient, even if submissive, associates. He must be able to decide promptly, execute his decisions swiftly, and contrive to do big things, as the saying is, in a big way. He must be energetic, vigilant, attentive to affairs, and an excellent judge of men. In short, he must be a man of supreme ability, at least in the governmental art. He cannot keep his power, he can hardly keep his life, unless he is.

There can be no doubt of the development during the depression of a widespread predilection for dictatorship as the instrument of the experimental attitude.

The establishment of dictatorships in Russia, Italy, Germany, and elsewhere, affords convincing evidence of this tendency to favor the consolidation of power in the hands of a single popular leader, when the people of a country desire a course of vigorous experimentation in the management of public affairs. The readiness of the American Congress at the special session of 1933 to give to the President of the United States greater powers than were ever before in time of peace conferred upon the chief executive magistrate illustrates the same tendency. The boldest political experimenters must be dictators of a sort. They must have power to determine what forms their experiments shall take and to complete the experiments which they deem it proper to try.

The advantages of dictatorship, however, are more than offset, in the opinion of those who uphold the democratic tradition, by its disadvantages. In the first place, the advantages, such as they are, hang upon the life of the dictator. They are consequently enshrouded in all the uncertainties which attend upon life, especially the lives of dictators. The death of a competent dictator may be followed by years of intrigue, or even of civil war, before another is found to fill his place. The interregna are not favorable to the experimental attitude. On the contrary, they are filled with all kinds of evil. Credit is impaired by their catastrophes. Life as well as liberty is unsafe.

Moreover, a great difficulty with political experimentation in the grand manner is that the manager of the experiment may become so preoccupied with the maintenance of his power that he neglects the experimentation which is its justification. The magnitude of this difficulty is illustrated by a comparison of the records of the Communist dictators in the Soviet Union with

those of the Fascist dictators in Italy and Germany. The Communists based their claims to the supreme power in Russia upon their determination to perform extensive experiments in the field of human relations, and they were able to devise a political system which has released their energies for the business of experimentation. But the Italian Fascists, though they have been able to maintain their control of the government, seem to have exhausted their energies in the struggle for power. Their grandiose scheme for a corporative state has remained no more than a scheme upon paper. They talk impressively about their new charter of labor, but the relations between capitalist and wage-earner seem to be no different from what might have been expected under the familiar capitalist system. The German Nazis have not yet finished the task of consolidating their power and it is doubtless too soon to determine whether the promised Third Reich will offer a better field for the display of the experimental attitude than Fascist Italy. Hitler has certainly been audacious enough in the development of a technique for the seizure of power, but up to now there has been little to suggest that he will have more free energy than Mussolini for fruitful experimentation.

Finally, a dictator, even the leader of a dictatorial party, cannot be expected to promote the general welfare of his subjects as a whole. He is raised to power upon the hopes of some part of the whole body of subjects, who give the necessary support to his dictatorship in order to frustrate the hopes of some other part, bent on serving their own special interests. The first attribute of a state is power, and victorious parties in the struggle for its possession expect to use it for the purpose of coercing their opponents. Dictatorships are most neces-

sary when a minority wishes to coerce a majority. It is the practical capacity of dictatorship to favor one partial interest against another that makes it attractive. Few persons would advocate a dictatorship, unless they expected the dictator to act upon their view of the public interest rather than upon that of their opponents. Now the democratic tradition maintains that consent to the exercise of power should be as general as possible. It seeks the supremacy of public purposes over private ends. It can be content only with that kind of dictatorship which is sustained by the unforced and ungrudging approval of the bulk of those who may be interested in public affairs. This is not the kind of dictatorship that might be expected to be most favorable to experimentation. It is evident why upholders of the democratic tradition must be hostile to an experimental attitude which can be satisfied only by a dictatorial form of government.

Under the Constitution of the United States there is room for no more than a strictly limited form of personal dictatorship. It is possible for the Congress to delegate to the President a much wider discretionary authority in connection with the development of policy than it had ever consented to do in time of peace prior to the great depression. The National Industrial Recovery Act and the Agricultural Adjustment Act with its Inflation Amendment afford examples of such delegation of policy-determining power. It is possible to extend the authority of the Federal government over matters hitherto left to the governments of states, as is illustrated by the same and other measures of the Seventy-third Congress. It is even possible to alter profoundly the relations between government and business. But these measures, as the recent decisions of the Su-

preme Court in the Minnesota mortgage moratorium and New York milk control cases plainly intimate, must be justified by the necessities of the emergency with which they profess to deal and must conform to the proprieties of our established legal system. One may describe the President as a dictator, American style, if one relishes that expression, but as long as the courts of justice remain open and Congress meets at the appointed times, he cannot be the kind of dictator envisaged by the advocates of revolutionary experimentation in politics. The champions of the experimental attitude in a democracy seem to be confronted with a real dilemma. Either they must consent to the concentration of power in the hands of a single person to a degree incompatible with the preservation of constitutional government (and even then they cannot be sure that they will get the active policy of experimentation which they desire); or they must abandon the hope for such bold and vigorous experimentation as is consistent only with arbitrary government and imperative personal rule.

There seems to be no escape from the horns of this dilemma except by the invention of political instruments capable of combining the power of a personal dictatorship with the sense of responsibility of a constitutional organ of government. Such an invention calls for the organization of thought on a scale suited to the requirements of the complex modern state and for the organization of will in a form appropriate for the control of the complex thinking-apparatus in the public interest. In plainer language, it calls for a more intelligent and powerful civil service than the American people have yet been willing to support and for a more

efficient system of representation than that heretofore provided by the Congress and the State legislatures.

Hitherto, opinion in America has been strongly set against the development of what the public has been pleased to call bureaucracy. Politicians and demagogues have taken great pains to give bureaucracy a bad name. It may be freely admitted that public officials who grow greedy and arrogant and get out of control, or who are lazy and inefficient and of little use to the people, deserve a bad name. But there are large numbers of public servants who are not bureaucrats in the offensive sense of the term. Calling worthy public servants bad names is a poor substitute for constructive experimentation with a view to improving the administration of public business. A more numerous, a more capable, and a more powerful body of public business administrators, under whatever name it may become known, subject to a suitable system of popular control, seems to offer the most hopeful means of escape from the dilemma of those who wish to maintain an experimental attitude in politics without doing violence to their democratic convictions. Here is the greatest field for political invention under the circumstances of our time. Can democracy organize itself for thought as well as for action, at once vigorous, intelligent, and continuously experimental? Can it meet the new governmental requirements of a high-powered machine age?

The obstacles which stand in the way of the creation of a powerful and responsible body of public business administrators, powerful enough to serve as efficiently as a single personal dictator, responsible enough to retain the confidence of the people at large, seem very great. For that reason many believers in American democracy and also in the experimental attitude reluc-

tantly conclude that bold and vigorous experimentation cannot be for us. We may hope for modest experiments in the field of government and for moderate improvements in political structures and processes, they tell us, but not for any striking advance in the governmental art. High-powered political institutions, suited to the requirements of a high-powered mechanical age, they argue, cannot be expected except at an excessive price in the form of the sacrifice of liberty. In their opinion we will have to drift along, making such minor improvements in our political system as may be compatible with the maintenance of a low-powered government—for example, the introduction perhaps of voting machines instead of the inconvenient and unsatisfactory paper ballots, the more general employment of experts here and there, when practicable, and the imposition of greater restraints upon the more intolerable practices of venal politicians—but should not look for any great increase in the power and serviceability of government. Such unsanguine observers of the political scene may not despair of the gradual amelioration of our political habits by the cumulative effect of many small changes in the conduct of public affairs. But in general they agree with former Governor Smith and are for experience as against experiment.

Others, more discontented with the weakness and incapacity of our present political institutions and more sanguine by nature, put more faith in the possibilities of political invention. They do not flinch from the prospect of deliberate experimentation based upon the systematic and purposeful study of existing political structures and processes. Instead of the casual democracy, which is the product of a century and a half of political experience in the United States, they look

towards the gradual development of a planned democracy. By a planned democracy they do not mean a finished arrangement of governmental forms and practices, that has to be established once for all time and thereafter preserved inviolate, nor an ideal to which reality must be made to conform as closely as may be practicable. They understand by a planned democracy a political system by means of which the American people can maintain the continuity of their organized existence between the present state of affairs and subsequent states of affairs.

Planned democracy cannot be the creation of abstract theorists. It must spring from the actual premises under the guidance of statesmen endowed with insight and imagination. We stand on the threshold of great changes in human relationships, especially in the relationships between government and business. Experimentation in the organization and administration of business proceeds apace, and the results impinge upon government and change it even when there is no direct experimentation in the organization and administration of government itself. It is evident that in a casual democracy the art of government must be an endless adventure. In a planned democracy the art of government will remain an empirical art, and its improvement will also be an endless adventure.

Constructive political experimentation must begin with careful discrimination between those features of the existing machinery of government which require improvement and those capable of rendering reasonably satisfactory service in their present form. The American system of representative government is one which is operated by political parties. It is a partisan political system whose essential characteristics are well under-

stood. In the past American partisan politics has been predominantly rural sectional politics. In the future it is certain to become more and more responsive to the interests and attitudes of an increasingly industrialized and urbanized population. Rural sectional politics will tend to give way to urban class politics. Since the soundest system of class politics is one which puts first the interests of the middle class, the forward-looking political inventor will try those experiments which seem most favorable to the development of such a system. He will seek to devise the new institutions necessary for preserving and strengthening its natural advantages and for making good its natural defects.

The natural defects of a representative system, dominated by the middle class, are obvious. They are underrepresentation of the interests of the upper and lower classes. It follows that the political inventor, who would make good the defects of such a representative system, must devise institutions for representing more effectively the most important special interests of these two classes. The most important special interest of the upper class in a capitalistic world is the accumulation and protection of capital itself. The most important special interest of the lower class is the protection and advancement of industrial labor, or of that part of it falling below the margin of the middle class. In a state dominated by middle-class parties it is certain that both the capitalists and the less skilled and unskilled wage-earners will be dissatisfied with their representation through the regular channels of the governmental process. It is desirable, therefore, that supplementary representative institutions be devised through which these special interests can find more adequate expression. At the same time, in order to preserve the character of the

system, it is necessary that the supremacy of the middle class be maintained.

The general nature of the institutional developments which will best meet the requirements of such a political system can be readily perceived. They will be described and appraised in the following chapters. The adjustment of these developments to the institutional inheritance of the present generation of Americans is the most urgent task of experimental statesmanship. The successful performance of this task would be in itself a triumph of government in a planned democracy.

II

THE REPRESENTATION OF CAPITAL

THE representation of the various social classes under the existing system of representative government in the United States is determined by accident rather than by design. A representative system designed to give each class its due share of the membership of the State legislatures and of Congress would presumably provide for the apportionment of members among the several classes according to their respective numbers, if the system were a democratic one, or, if it were an oligarchic system, the apportionment of members among the several classes would be arranged to take account of inequalities in the distribution of wealth. In the early years of the American Commonwealth oligarchic representative systems were openly advocated by spokesmen for the upper classes, and even reputedly democratic statesmen, notably Jefferson, defended popular elections on the ground that the masses would naturally choose their betters to represent them. John Adams, who argued that the masses would naturally choose persons of their own kind for representatives and that the upper classes could protect their special interests only by choosing special representatives for the purpose, expressed an opinion widely held by property-owners and men of affairs. In accordance with such oligarchic ideas,

several of the original State constitutions provided for the separate representation of the rich in the upper houses of the State legislatures, and there was substantial support in the Federal Convention of 1787 for an avowedly oligarchic Senate, organized in such a way as to give the rich a veto upon hostile measures emanating from the more democratic House of Representatives. Never popular, these oligarchic institutions were eventually discarded, and democratic dogmas gained almost undisputed sway. The existing American representative system is designed to represent persons without regard to their economic condition or position in the world, and the various classes must take their chances at the polls.

Which classes gain most from the normal operation of the American representative system is a question which cannot be answered without a preliminary understanding concerning the basis of classification. Classes might be determined in various ways. In this book the scheme of classification which will be adopted for the purpose of the argument to be presented is that which is based upon the relationship between persons in the process of production. A class may accordingly be defined as an aggregate of persons playing the same general part in the productive process.¹ Since the common element of each class is its uniform source of income, the basic classes are determined by the nature of industrial society. In the modern capitalist state the essential relationship is that between those, on the one hand, who employ labor for profit and, on the other, the employed. The basic classes are therefore two in number, the capitalists and the proletariat, or, following Marx and the socialistic theorists, as well as the classical capitalistic economists, who make a distinction between

¹ See N. Bukharin, *Historical Materialism* (English edition), p. 276.

land and other forms of capital-investment, we may recognize three basic classes, proletariat, capitalists, and landlords. The first test of a representative system under the conditions of modern economic society is its distribution of representatives among these basic classes.

Besides these basic classes, however, certain other classes must also be recognized in the existing industrial order. For example, there are the numerous persons who are both capitalists and proletarians at the same time. Among them are the employees of corporations who own stock in the corporation by which they are employed, and all wage-earners who own shares of stock in any corporation or who hold shares in building and loan associations or other coöperative societies or in any of various ways possess a personal interest in the established capitalistic order. These persons form a special mixed class which is neither definitely capitalistic nor definitely proletarian. Again, there are the persons who represent a survival from an earlier industrial order, such as artisans, handicraftsmen, and many others rendering sundry personal services, who are not essential to modern industrial society and maintain an insecure position in a changing world. These persons form what may best be described as a transitional class in the existing capitalistic order. Furthermore, there are the very important groups of persons who, like members of the learned professions, skilled technicians, and public servants, render essential services in the existing order without being either capitalists or wage-earners in the specific sense of the terms. These persons constitute an intermediate class in a capitalistic state. Finally, there are the miscellaneous groups, which fall outside of all these classes, such as beggars, vagrants, criminals, students, and the otherwise unaccounted for. Such a system

of classes may be deficient in scientific precision, but it is convenient for the purposes of testing the operation of the American representative system.²

The distribution of the representatives of the American people among these various classes can be roughly determined from the Congressional Directory and the State Legislative Manuals. It is well known that the leading occupations among the representatives of the people in the State governments are farming and the practice of law. A clear majority of the approximately 7,500 members of the State legislatures are either farmers or lawyers. In many states the farmers possess more representatives than any other single class, and in some more than all others combined. These farmers are in some cases the proprietors of great estates, which are operated more like factories than standard American farms and qualify their owners as capitalists rather than farmers of the traditional American type. In other cases representatives who call themselves farmers probably possess extensive investments in industrial properties, or in stocks and bonds, which would entitle them to a classification as capitalists, if the facts were definitely known. Many lawyers also might better be classified as capitalists on account of the extent of their personal investments or business interests or the closeness of their association with capitalistic clients. Making allowance for such probabilities, it is not unreasonable to suppose that the proportion of State representatives with a definitely capitalistic position in American society is greater than would appear upon the face of the returns. Certainly it is much greater than it would be, if capitalists were represented in direct proportion to their numbers.

² For a more detailed discussion of this classification, see my *The New Party Politics*, pp. 43-45 and 92-100.

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But it is clear that farmers are also over-represented in the State legislatures, and that lawyers, together with the whole intermediate class to which they belong, are very greatly over-represented. It is no less clear that wage-earners and most other categories of persons must be greatly under-represented.

The facts concerning the economic condition and activities of the members of the Congress of the United States are better known. It is possible to make a rough classification of the Federal Senators and Representatives upon the same basis as that adopted for the classification of the people at large. Such a classification should make it easier to answer the question, which classes are in a position to gain the most power under the American system of representative government?

The accompanying table shows the distribution of the members of the Seventy-Third Congress among the three basic classes of the modern industrial order and the various supplementary classes.

THE REPRESENTATION OF SOCIAL CLASSES IN CONGRESS *

| <i>Classes as defined by Bukharin</i> | TOTAL NUMBER OF ADULT MEMBERS MILLIONS | | NO. OF MEMBERS OF CLASS IN 73RD CONGRESS | | | |
|---|--|-------|--|------|-------|-------|
| | | % | SENATE | H.R. | TOTAL | % |
| I. Basic Classes | | | | | | |
| 1. Proletariat | 38.8 | 51.7 | 0 | 7 | 7 | 1.3 |
| 2. Capitalists | 1.2 | 1.6 | 15 | 75 | 90 | 16.9 |
| 3. Landlords | 6.0 | 8.0 | 4 | 14 | 18 | 3.4 |
| II. Intermediate | 7.5 | 10.0 | 73 | 295 | 368 | 69.3 |
| III. Transitional | 5.0 | 6.7 | 0 | 0 | 0 | 0.0 |
| IV. Mixed | 10.0 | 13.3 | 1 | 2 | 3 | 0.6 |
| V. Unclassified | 6.5 | 8.7 | 3 | 42 | 45 | 8.5 |
| Total | 75.0 | 100.0 | 96 | 435 | 531 | 100.0 |

* This table is based upon computations made for me by the statistical staff of the Harvard University Committee on Research in the Social Sciences. For this aid I am happy to express my gratitude, but for the use of the results I alone, of course, am responsible.

It is evident that the proletariat, which, as defined, includes a clear majority of the American people, makes almost a negligible showing in the Congress. No industrial or agricultural laborer found his way into the Senate of the Seventy-Third Congress, and only seven persons claiming to belong to this class reported their presence in the House of Representatives. Most of these were paid officers of trade unions or labor organizations of some sort, that is, semi-professional organizers whose occupation, if not antecedents, tended to give them a professional rather than strictly proletarian point of view. No active member of the transitional class found his way into either branch of the Congress, and there were only three persons who, on the basis of their autobiographies in the Congressional Directory and other available information, could be assigned to the mixed class. One of these, a Senator, who still claimed to carry a membership-card in the Amalgamated Iron, Steel, and Tin-plate Workers, had made a fortune in the fraternal-order business and might better perhaps have been classified as a capitalist. Altogether these classes, to which over 70% of the adult population seem to belong, accounted for less than 2% of the membership of the Congress. The landlords, chiefly farmers, since the urban real-estate owners fall almost entirely into other classes, accounted for 8% of the population, but less than half that proportion of the Congressmen reported themselves as farmers. Several of the Congressmen, who claimed to belong to that class, might well have been assigned to the capitalist class on account of the extent of their estates or the importance of their other business connections and investments. Thus the farmers, as well as the wage-earners and other classes of workers, are greatly under-represented in the Congress, in so far

as it is a question of representation by members of their own class.

The capitalist and intermediate classes, on the other hand, are greatly over-represented. The capitalists were ten times as numerous in the Seventy-Third Congress as in the country at large, and persons belonging to the intermediate class were nearly seven times as numerous. Most of the latter, constituting approximately 60% of the total membership of the Congress, belonged to the legal profession, and the rest were distributed among a variety of professions, chiefly doctors and dentists, teachers, journalists, engineers, accountants, and clergymen. The leading groups of capitalists were the bankers and brokers, the newspaper publishers, the merchants, the manufacturers, the contractors, and the public utilities operators. Many of the professional men, particularly the lawyers, must have had business connections or investments which would have justified their classification as capitalists, if the facts were definitely ascertained. Some of the unclassified also would doubtless fall into the capitalist class, if adequate information were available. Most of the Congressmen, assigned to this class, were representatives who failed to report in the Congressional Directory any occupation other than politics and might fittingly be termed professional politicians and assigned to the intermediate class. Doubtless they were not in general specially representative of the beggars, vagrants, criminals, students, unemployed, retired, etc., who constitute the bulk of the unclassified in the population at large. Be that as it may, it is a fair inference that the representation of the capitalist class, as shown in the table, gives a modest estimate of the relative voice directly exercised by that class in the Congress. But after making a generous al-

lowance for the capitalistic professional men, the intermediate class (including the bulk of the professional politicians) is clearly in a position to dominate the Congress by weight of numbers. If the direct representation of the social classes in the Congress were the correct measure of their influence upon the processes of government, the ascendancy of the intermediate class in national politics would be incontestable.

It is impossible, however, to admit that the direct representation of the social classes in the Congress or in the State legislatures is a correct measure of their influence upon the governmental processes. On the contrary, in a capitalistic society the political influence of the capitalist class is necessarily greater than its numbers or participation in representative bodies would indicate. This disproportionate influence results from the nature of the society, the structure of the government, and the characteristic operation of the representative system itself.

The nature of capitalist society affects the general tone of politics in many ways. Perhaps the most important channel of influence is that which operates through the capitalistic control of the principal sources of public opinion, and this may serve as a fair sample of the relationship between capitalist society and the governmental process. The opinion of the public is dependent upon its information concerning public affairs, and in the modern state the scale of governmental action is so great that most public affairs are conducted out of the sight of the general body of people and largely also beyond the range of their ordinary thinking. Such affairs have to be reported to the people, and in order that public opinion may play an effective part in the governmental process, public attention must

be directed to these reports, public interest must be aroused in them, public desire for a certain kind of action must be stimulated, and an eventual decision of the public must be expressed and interpreted. A primary function of the representative system is to interpret the decisions of the public when reached and expressed, but for the most part the public is left to its own resources in the earlier stages of the process of forming public opinion. In a capitalist society these resources are meager. The foundations for public opinion are laid in the public schools, the churches, and the various voluntary associations by means of which the public mind is cultivated and public thought organized. The government helps a little by the publication of Congressional debates and departmental reports and helps more by the provision of public libraries and sundry other services of adult education. But chiefly the public must rely for its information about public affairs upon the private printing press and radio.

In a capitalist society the important sources of information, though serving a public purpose, are operated primarily for private ends. The publishers of newspapers and magazines and the proprietors of radio broadcasting stations engage in business to make a profit and may legitimately put profits ahead of public service, if they choose to do so. Their profits derive more from advertisers than from readers and listeners. Advertisers are also capitalists engaged in business for profit and their advertisements, though serving indirectly a public purpose like the advertising mediums which they patronize, are placed primarily for private ends. News is reported because it pays to report it; the reports are featured because it pays to feature them; the public is taught to desire something because it pays

to stimulate such desires; public opinion finally emerges from a process which is sustained doubtless from a mixture of motives but especially because it pays capitalists to do so. It is not necessary to pursue further the analysis of the process by which public opinion is fabricated in a capitalist society. It is enough to know that opinion becomes essentially a commercial product and only incidentally an instrument of government. It is not even necessarily a product of a rational process. It may be an instinctive reaction to a manipulated situation. The public may not even be conscious that it has formed an opinion or made a decision. Public representatives must generally take the opinion of the public as they find it or risk a fatal termination of their political careers. It is not surprising that they should often consult the opinions of capitalists in the first place rather than await the expression of the so-called opinion of the public itself.

It is not surprising also that there has been in recent years a revulsion against democratic forms of government. If by democracy is meant government in accordance with the dictates of public opinion, it is evident that such a government can possess only a limited field of operation. The public cannot easily give its attention to any affair until the affair has become a matter of profitable publication; it cannot give its attention to many affairs at any one time; its decisions must generally be rendered upon the issues as formulated and presented to it by those who hope to profit by the result. It is clear that the representatives of the public in the State and Federal governments can conduct comparatively few affairs in accordance with a previously expressed decision of the public. For the most part public representatives cannot function as interpreters of pub-

lic opinion upon specific issues. They must function rather as a sample of the public who may under favorable circumstances and after due deliberation reach the same decision that the public might reach for itself, if it were in a position to examine the matter in the light of adequate information. Or they may function as a body of experts in government, giving the public the benefit of a superior judgment on matters for dealing with which their political experience gives them special qualifications. The really surprising observation is that representative government operates as successfully as it evidently has among peoples who have learned how to use it. An experienced public does seem to be in the long run a good judge of that which it is most important that it should judge well, namely, the character of the men who offer themselves for the office of representative. The wise selection of public representatives—not the direct determination of public measures through the expression of specific opinions—and the steady support of intelligent and conscientious representatives, while conditions warrant such support: these are in general the proper tasks for the public in a prudent division of labor between itself and its representatives. When an experienced public entertains no more than reasonable expectations of its representatives, it is in a position to put the true value upon the animadversions of the critics of democracy.

The disproportionate influence of capitalists upon the conduct of public affairs in a capitalist society is enhanced by the structure of the government. One instance of the operation of this kind of influence will serve to illustrate the relationship between the type of governmental structure and the development of the political importance of a class. The salaries of public

representatives have apparently been fixed without much regard for the effect of the salary-scale upon the character of the representative-system. Yet it is clear that the height of the scale must exert a substantial effect upon the operation of the system. If a representative receives no salary at all, the honest poor man will be excluded from the service except as the agent of a party or other organization which can afford to maintain him in office and is willing publicly to avow its responsibility for his actions. Politicians with private wealth or wealthy benefactors will enjoy a great advantage under such a representative system, and the rich as a class will manifestly gain in political importance. In many State legislatures, though salaries are low, the sessions are short and limited to a season when farmers can leave their fields without damage to their crops. Such a system was not ill-suited to the conditions of a simple frontier economy. But in the modern state the sessions tend to lengthen and poor but honest urban representatives cannot ordinarily leave their regular business or employment without more substantial compensation. The office of representative tends to fall into the hands of professional politicians and men of wealth. Such a situation is bound to enhance the political influence of capitalists in a capitalist society.

The Federal representative system is constructed in like manner as that of the States. Congressmen, to be sure, receive a salary of ten thousand dollars a year, which may be materially increased by savings from the regular allowances for mileage and clerk-hire. This should be enough under ordinary circumstances to render a Congressman independent and enable a poor man to serve his constituents without fear or favor. Indeed it is more than many members of the capitalist

class itself receive. In the good years before the depression the number of persons paying Federal income tax on net incomes of ten thousand dollars or more never exceeded four hundred thousand, and the capitalist class, as defined, is considerably larger than that, even if allowance be made for adult non-tax-paying relatives. But the circumstances of a Congressman are not ordinary. He is compelled in many cases to maintain a home in two different places at substantial expense and also to meet the cost of expensive campaigns for nomination and election. In some cases, despite laws designed to limit the cost of electioneering, these expenses may be very great. Although certain excessively expensive campaigns for election to the Senate from such states as Illinois and Pennsylvania have proved unprofitable, the numerous advantages of the possession of wealth to a Federal Senator or Representative cannot fail to work in favor of the class to which wealthy men generally belong. The special opportunities for appointment to desirable executive and judicial offices, which Congressmen enjoy under the normal operation of the spoils system, doubtless make the position somewhat more attractive to poor but independent politicians. On the other hand, the possibility of tempting capable representatives with legitimate offers of lucrative business connections after leaving the public service, to say nothing of less legitimate offers, tends to strengthen the capitalistic influence resulting from the structure of the representative system. On the whole, in consequence of the character of the governmental structure, this influence must be much greater than is indicated by the number of capitalists in Congress.

Furthermore, the influence of the capitalist class is increased by the normal operation of the American rep-

representative system itself. This system tends to produce a body of representatives who are both older and more legalistic than the general body of voters. The average voter is probably a little under forty years of age, though the age has been rising in recent years in consequence of the improvement of public health and the lengthening expectation of life. How old the average State legislator may be is unknown, but the average Congressman is around fifty years of age.⁴ Now it is commonly supposed that as a rule increasing age makes for greater conservatism of opinion. Though the history of modern politics furnishes many conspicuous exceptions to the rule, the common supposition seems to be well-founded. It is consistent with the verified observation that young politicians are exceptionally prominent in periods of revolutionary change. Conservatism in a capitalistic society may mean many things, but at least it means the conservation of capital itself and of property in general. Moreover the older a successful politician grows, the more likely he is to associate with successful persons in other walks of life, especially in the business world, for success, especially business success, is something that is apt to grow with the years and to serve after a fashion as a bond of fellowship. As long as the average Congressman continues to be ten years older than the average voter, the representative system will continue to operate on that account also to some extent in favor of the interests cherished by the elderly and the successful. In a capitalist society these are identified with capitalism.

Finally, the large proportion of lawyers among Congressmen cannot fail to give the Congress a more conservative character than it would possess if it contained

⁴ See Stuart A. Rice, *Quantitative Methods in Politics*, pp. 296-7.

fewer lawyers and more engineers, technicians, and practitioners of the experimental sciences. Long ago Burke noted that the law is a profession which "quickens and invigorates the understanding," but "is not apt, except in persons happily born, to open and liberalize the mind in the same proportion." Lawyers do not seem to have changed their nature since Burke's time. It is not surprising that De Tocqueville should have observed that the American lawyers were "the most powerful existing security against the excesses of democracy." The same observation has been often repeated by discerning investigators of democracy in America. The legal profession doubtless is temperamentally well-suited for the representation of capitalist interests in a capitalistic age.

The many factors which conspire to give the capitalist class a disproportionate voice in the conduct of affairs under the American system of representative government seem to have reconciled the rich to a representative system which has not since the early years of the Republic provided any special place for wealth in the scheme of representation. The rich have discovered acceptable substitutes for the separate upper houses which they sought to claim for themselves in the original constitutions. The common interests of property-owners as a class have been on the whole tolerably well served. But it has been only the common interests of the upper class that have been tolerably well served. The protection and promotion of the special interests of different sections and groups within the upper class have always left a great deal to be desired by the members of the various groups and sections.

The most convincing evidence of capitalist discontent with the constitutional system of representative

government in the United States is the development of an elaborate system of voluntary associations organized by businessmen for the purpose of securing better representation for their special interests. A constitutional basis for this system of business representation can be found in the provisions of the revolutionary bills of rights guaranteeing that the people may peaceably assemble and petition the government for the redress of grievances, but the contemporary business representative system has developed far beyond any institution for assembling businessmen and presenting their petitions that could have been imagined by the framers of the original constitutions.

The development of special business representative institutions had a humble beginning and has been a slow process. Businessmen found that they needed special counsellors and advocates in their dealings with legislative and administrative officers as well as in their proceedings in the courts of law, and out of this need gradually emerged the institution known as the lobby. With the growing importance and complexity of the relations between government and business came a demand on the part of businessmen for more serviceable representatives than the old-fashioned lobbyists and for sounder methods of representation than those too often employed by an irresponsible lobby. Though the function of the legislative counsel and agent was legitimate, the class of men who dominated the profession so abused their opportunities that the lobby fell into disrepute and the word itself became a term of contumely and contempt. Legislators and congressmen who depended upon unofficial representatives of their constituents for helpful information concerning their grievances indignantly repudiated the suggestion that they

had dealings with the lobby. But the institution continued to grow. With growth came the evolution of special organs for special functions, and the independent professional lobbyist was gradually relegated to an inferior position in the hierarchy of the business representative system. He continues to perform casual services for businessmen as for other persons desiring special representation in the legislative or administrative process, but the important institutions for the representation of modern capitalistic business have outgrown their original associations with the lobby.

The multitude of special business interests which demand special representation is reflected in a corresponding multitude of representative institutions. The Department of Commerce has published a directory of commercial and industrial organizations in the United States in which were listed over ten thousand business organizations. Included in this total was every kind of organization down to the little local groups of businessmen who cannot eat lunch without officers and by-laws. Yet even this list was not as comprehensive as would be necessary if every organization were included through which business interests can find expression and business attitudes affect the general tone of public opinion. William Z. Foster, the head of the Communist ticket in recent Presidential elections, published a book during the campaign of 1932, in which he enumerated the capitalistic organizations to be "liquidated" under a dictatorship of the Communist party. In addition to the regular political parties he noted "all other organizations that are political props of the bourgeois rule, including (a) chambers of commerce, (b) employers' associations, (c) rotary clubs, (d) the American Legion,

(e) the Y. M. C. A., and (f) such fraternal orders as the Masons, Odd Fellows, Elks, K. of C., etc." ⁵ Doubtless all these organizations play a part in the maintenance of the established order, as Foster claimed, and help to protect the rights of property and capitalistic interests in general. But special interests of the various groups of capitalists call for special organizations under their exclusive control and are much less numerous.

The special capitalistic representative organizations fall into three categories. In the first place, there are the organizations which seek to act for the whole capitalist class, or a definite portion of it, with reference to a specific class interest. Sometimes this interest is more or less clearly indicated in the name, as in the cases of the American Tax-payers League, which led the fight at Washington a few years ago against inheritance taxes, and the National Economy League, which led the fight against heavier payments to the veterans. In other cases the purpose of the organization must be deduced from its activities, as in the cases of the National Association of Manufacturers and the National Industrial Conference Board. The former seems to be interested chiefly in combating organized labor and in promoting legislation deemed favorable to employers and opposing legislation desired by labor organizations. The latter conducts statistical investigations of interest to businessmen and publishes the results for the information of those concerned. Such organizations can devote themselves to their particular objectives with a singleness and steadfastness of purpose not attainable by more comprehensive organizations and under vigorous and skillful leadership can make significant places for themselves in the business representative system. But

⁵ William Z. Foster, *Toward Soviet America*, p. 275.

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the limitation of their objectives limits their value as representative institutions.

Another category of capitalistic representative institutions consists of those which seek to represent all business interests in a particular geographical area. These range in importance from the local boards of trade and chambers of commerce in small villages and rural county seats up to the Chamber of Commerce of the United States with a splendid office building at the national capital and an annual budget running into the millions. The activities of the United States Chamber of Commerce, though conducted on a national scale, reflect the purposes of all organizations of this type. It investigates problems of general concern to businessmen, publishes the results of its investigations in special reports, in its regular weekly bulletins, or in its monthly magazine, and keeps its members informed about pending legislation at Washington, administrative rulings, and judicial decisions of interest to the nation's business. It also undertakes to keep Congressmen and executive officers informed concerning the trend of opinion among businessmen with respect to public affairs in which businessmen may be expected to take a special interest. To this end the Chamber has developed an elaborate procedure for presenting to its members for the expression of their opinions such issues as may be "national in character, timely in importance, and general in application to business." The results of these polls are laid before the Senate and House Committees having charge of bills affecting the matters to which the polls relate, together with other information concerning the state of opinion among the nation's businessmen. The annual meetings of the Chamber are also the occasion for carefully considered pronouncements

by the nation's business leaders on public affairs of special concern to businessmen, of which responsible statesmen will not be unmindful.

The importance of the Chamber of Commerce of the United States as a business representative institution is not easy to measure. It claims to have taken an important part in framing and putting through Congress such legislation as the Federal Reserve Act, the act creating a permanent Tariff Commission, the Budget and Accounting Act, the Transportation Act of 1920, the Federal Water Power Act, the act for the reorganization of the Foreign Service, and the McFadden Branch Banking Act. It is certain that it did exert a substantial influence upon the deliberations of the Congress in connection with these and many other measures. A compilation of its policies, as determined by the referenda in which its membership has participated, fills a volume of more than a hundred pages. It takes a broad view of its responsibilities to the American business community. Among the issues on which it has taken a position have been such general matters as the improvement of the civil service, the treatment of the war veterans, restriction of immigration, relations with foreign countries, the national defense, farm relief, the public schools, and daylight saving. It has firmly resisted undesired government regulation of business and objectionable government competition with business. Believing that "what's good for business is good for the country," it has voiced the businessman's point of view with zeal and assurance. It has made itself an impressive spokesman for the capitalist class. It has made organized business a recognized part of the representative system of the United States.

On the other hand, the Chamber of Commerce of

the United States, and also the state and local chambers in their respective fields of action, are restrained in their operations by the comprehensiveness of their organization. The very fact that all kinds of businesses are included in their membership makes it difficult for them to act decisively in matters which produce conflicts of interest among businessmen themselves. The national Chamber could give effective support to proposals for taking the tariff "out of politics" by the creation of a permanent tariff commission, but it was incapable of playing any active part in struggles over the revision of particular tariff rates. It could advocate earnestly the reduction of the cost of government and the increase of efficiency in the public service, but it could take no definite position with respect to specific projects for altering the progression of the income tax. It could plead the cause of business in general, but it could not do much for any business in particular. To have attempted this would have meant to divide its own constituency against itself. The Chamber might be the most conspicuous and most important single institution in the American system of business representation. But it could not supply adequate means of expression for the special interests of American business.

The third category of capitalistic representative institutions consists of those which seek to represent the interests of particular groups of producers or distributors of a commodity or service without regard, or with only incidental regard, for the geographical area in which they may operate. Such groups need organizations of their own to care for the special interests which their members have in common but do not share with the members of similar groups in other industries and trades. It is this need that has given rise to the numerous

trade associations and industrial institutes which have been organized in recent years. In 1912, when the Chamber of Commerce of the United States was organized, trade associations were a familiar type of business organization, and the Chamber provided for their inclusion in its own membership alongside the State and local chambers of commerce and boards of trade. Their previous history did not suggest that they were destined for more than a subordinate place in the business representative system. Indeed the anti-trust acts, as then interpreted, made their future precarious, and few business organizers could have been far-sighted enough to foresee that they would eventually become rivals of the national Chamber itself.

The development of trade associations has been the most important fact in recent American business organization. Recommended with fresh arguments a few years before the World War as the most suitable agency for the stabilization of production and prices,⁹ the trade association was found during the War to be the most serviceable type of organization for representing the various war industries at the seat of government. After the War there was a considerable growth of such associations, until open price-listing and the distribution to members of information designed to promote the limitation of output and price-fixing were checked by adverse decisions of the Supreme Court. Encouraged again by later and more favorable Supreme Court decisions, there was another period of rapid growth, followed a second time by a heavy slump under the strains and stresses of the general business depression. During the good years before the depression estimates of the number of trade associations, representing national or

⁹ See Arthur J. Eddy, *The New Competition*. (Chicago, 1912.)

interstate industries, put the total between one and two thousand.⁷ Many of these were too weak to count for much in the representation of American industry. Many others were forced to content themselves with membership in the national Chamber of Commerce, expressing the interest of their members in the governmental process only indirectly and at second hand. But over a hundred were found by Dr. Herring in 1928 to be maintaining offices of their own in Washington, and many of these displayed great activity in matters in which their members had a special interest.⁸

The trade associations and industrial institutes won their great opportunity under the National Industrial Recovery Act. General Johnson adopted the policy of relying upon them as much as possible for the representation of industry in framing codes of fair competition and in the subsequent administration of the codes. On July 10, 1934, when the process of code-making reached its culmination, there were 476 codes in force, or approved for enforcement, and 262 were pending before the N. R. A. The extent to which the process of code-making and code-enforcement depended upon the coöperation of the trade associations is shown in the following table.⁹ The code authorities are classified in accordance with the degree of dependence upon trade associations in the process of organization. The first class comprises the code authorities set up for industries

⁷ See *National Trade Associations, a Study by the National Association of Manufacturers*, (1922), National Industrial Conference Board, *Trade Associations, their Economic Significance and Legal Status*, (2nd ed., 1925); and Department of Commerce, *Trade Association Activities*, (rev. ed., 1927).

⁸ E. P. Herring, *Group Representation before Congress*, p. 99.

⁹ This table is based upon computations made for me by the statistical staff of the Harvard University Committee on Research in the Social Sciences. For this aid I am happy to express my gratitude, but for the use of the results I alone, of course, am responsible.

ORGANIZATION OF CODE AUTHORITIES

| Size of industry (estimated normal) | Number of Authorities | | | | | TOTAL |
|--|-----------------------|-----|-----|----|---|-------|
| | I | II | III | IV | V | |
| Employing over 100,000 persons . . . | 11 | 9 | 16 | 4 | 2 | 42 |
| 50,000-100,000 | 2 | 3 | 16 | 2 | 1 | 24 |
| 10,000-50,000 | 12 | 27 | 54 | 14 | | 107 |
| 1,000-10,000 | 9 | 61 | 136 | 18 | 3 | 227 |
| less than 1,000 | | 20 | 45 | 11 | | 76 |
| Total | 34 | 120 | 267 | 49 | 6 | 476 |

in which two or more trade associations were utilized as agencies for the selection of code authority members. The second class comprises the code authorities set up for industries in which a single trade association was recognized as fairly representative of the whole industry. The third class comprises code authorities a majority of whose members were chosen by a single trade association but on which independent members of the industry also received representation. The fourth class comprises code authorities for industries in which no trade association was available for the choice of members of the authority and the N. R. A. was obliged to devise a suitable plan for their election by members of the industry. The fifth class comprises code authorities for industries in which no plan for the election of representatives by members of the industry was practicable and members of the code authority were appointed by the President of the United States.

The effect of the creation of code authorities under the N. R. A. was to give a tremendous impetus to the organization of trade associations and industrial institutes. Those associations and institutes which were already flourishing, when the N. I. R. A. was adopted, were invited by the Administrator to propose codes for approval by the N. R. A. and suggest plans for the

election of members of the code authorities. Industries in which there were weak associations, or none at all, were encouraged to organize new associations, or to reorganize the old. Active members of the associations were honored by election to the code authorities, and association executives or their friends were rewarded by selection for the paid administrative offices. The code authority executives found themselves sharing in the genesis of a new profession, and some of them received high salaries, designed to attract men of superior ability and character. Budgets were prepared for approval by the N. R. A., ranging in amount from a few thousand dollars a year in many of the small industries to millions of dollars for a few of the largest. The strong financial resources of the more important and better-organized code authorities and the intimate connection between the code authorities and the trade association leaders and executives combined to strengthen the position of the trade associations in their several trades. Thus the great experiment in self-government in industry opened a new era in the history of organized capital's representative system.

The decision to build the administration of the National Industrial Recovery Act upon the system of business representation embodied in the trade associations and industrial institutes was sound. The basis of representation employed in this system is a functional community, consisting of a group of capitalists and businessmen united by the consciousness of a need for joint action to defend and promote their common interests arising out of the pursuit of profit in the same kind of business. A functional community of capitalists is superior to a territorial community, such as that represented by state and local chambers of commerce of the

standard type, when it is a question of representing the special interests of different groups of producers and distributors within the capitalist class, for the same reasons that a territorial community is to be preferred, when it is a question of representing the general interests of the capitalist class. A trade association may be defined as an organized body of capitalists and businessmen, united for the purpose of representing the special interests of a capitalistic functional community. The interests represented by a trade association are the most vital interests of the different groups of capitalists. Consequently, among capitalist representative institutions, the trade association is destined to develop the greatest vitality as the different groups of capitalists become fully conscious of their special group interests. Other capitalist representative institutions will continue to hold a place in the general system of representation, but the trade association should become increasingly important, because it is the special interests of different groups of capitalists rather than the general interests of the capitalist class as a whole which most require better representation in the present state of representative government in America.

The position of the trade association, regarded as a unit of representation in a capitalistic representative system, is fortified by its demonstrated capacity for service to its members. Among the legitimate services successfully rendered by trade associations are the collection of information relating to the trade or industry, its distribution to members of the trade, technological research, the improvement of accounting practices and marketing methods, the discovery of new uses for products and the cultivation of the good will of the public, provision for coöperative insurance, organization of

credit bureaus, pooling of patents, conduct of employment bureaus, establishment of uniform trade rules or codes of business ethics, and representation of the trade before legislative and administrative bodies. It is the last two activities which touch most closely the problem of representative government in the modern industrial state. The attempts of trade associations to raise the standards of trade morality and to protect their members against unfair competition, ineffective though they generally were when unsupported by the authority of law, attracted the attention of the government. The trade practice conferences, promoted for several years before the adoption of the N. I. R. A. by the Federal Trade Commission, contributed to the improvement of business morals and showed the possibility of utilizing the trade associations as instruments of government. At the same time the constant, though necessarily futile, efforts of trade associations to regulate production and prices revealed the necessity of subjecting them to further public control. Thus the adoption of the N. I. R. A. was a logical step in the development of the system of representative government in the modern industrial state, none the less logical because actually accomplished under the pressure of a great emergency.

It is clear, however, that the fostering of trade associations by authority of law cannot be the last step in the organization of a system for the better representation of capital in the contemporary process of government. There are obvious limits to the competence of trade associations. They are incompetent to define the scope of their authority over members of the trade who do not wish to join the associations. The rights of unorganized members of a trade must be protected against the abuse of power by the organized; the rights of

minorities within the organization, against those who dominate it. A trade association is also incompetent to determine the boundaries of the trade itself. Jurisdictional disputes between different trade associations can only be satisfactorily settled by a higher power. Above all, the problem of general economic planning, in so far as such planning is practicable within a capitalistic society, lies beyond the capacity of individual trade associations.

There is need of a general trade council of some sort to represent the collective interest of the different trades and industries in the efficient operation of the new system of representative government in industry. The Chamber of Commerce of the United States might conceivably find a way to serve as such a general council of the organized industries of the country. Probably, however, it will be necessary to construct a new central organ of industrial representation. The beginnings of such an organ may be discerned, perhaps, in the Business Advisory and Planning Council of the Department of Commerce and in the Industrial Advisory Board of the N. R. A. They may be discerned more clearly in the general Conference of Code Authorities, which was held at Washington in March, 1934, under the auspices of the N. R. A. The committees appointed thereafter to deal with the consumers' goods and durable goods industries, respectively, indicate the kind of organization for the representation of capital that seems most likely to be useful in the next stage of institutional development in the modern class-conscious state. Be that as it may, it is evident that the foundations have been laid for an efficient system of representing capital in the process of government. But the system is manifestly incomplete.

III

THE REPRESENTATION OF LABOR

LABOR has not fared so well as capital under the American system of representative government. While the proportion of capitalists in the Seventy-Third Congress was ten times as great as the proportion of capitalists in the adult population of the United States, the proportion of wage-earners and other subordinate employees of capitalistic industry together with paid officers of labor organizations in the same Congress was only about one-fortieth of the proportion of proletarians in the adult population. The proletariat, estimated as nearly as practicable in accordance with the requirements of the Marxist theory of classes, appears to contain more than one-half of the total adult population, but proletarian members account for only 1.3% of the total membership of the Congress. Even when allowance is made for the representatives of the transitional and mixed categories, many of whose members might be expected to share the attitude of the wage-earners towards the capitalist class, the direct representation of the laboring classes in the Congress is negligible. In the State legislatures, at least in the industrial states, there is doubtless a greater proportion of proletarians, though in no state is there a delegation of labor representatives proportionate to the size of the proletariat. Middle-class

and upper-class representatives clearly dominate the political scene.

The indirect influence of the workers, like that of the capitalists, is greater than that exercised through direct representation. Just as the wealth and economic power of the capitalist class enables it to magnify the importance of its numbers under the American representative system, so the numbers of the workers enable them to find some compensation for the unimportance of their direct representatives. The middle-class members, who far outnumber the members of the upper and lower classes in American representative bodies, cannot be elected by middle-class voters alone. They must secure many lower-class votes as well as much upper-class money in order to maintain their ascendancy in the existing political order. Despite the various circumstances which favor wealth over numbers in the struggle for political power in a capitalistic society, the force of numbers cannot altogether be denied. The distribution of the industrial population among the congressional districts is such that in many districts the labor vote may doubtless be ignored by the candidates of the major political parties. In a majority of all the districts it may either be ignored or considered only when the two major parties are so evenly matched as to enable a small minority of the voters to hold the balance of power. But in a substantial number of congressional districts the labor vote is a clear majority of the total and candidates for election must give careful consideration to the real or supposed interests of the laboring classes. Not all the lawyers and other members of the intermediate category of representatives are attorneys for the capitalist class; some of them are more likely to be attorneys for labor. Many of them, how-

ever, are likely to put middle-class interests first in case of a conflict of class interests, and all of them ought to do so, if they wish to act upon the principles of a sound system of politics in a modern industrial state.

Labor, like capital, is certain to be dissatisfied with a system of representative government which is dominated by the representatives of the middle class and operated in case of class-conflict primarily in the interest of the middle class. Unlike capital, however, the dissatisfaction of labor is likely to arise out of the neglect of the general class-interests of the workers, rather than out of the practical incapacity of the political government to take due care of the divergent interests of different groups within the class. Labor, therefore, is more likely than capital to try to redress its grievances by means of a special political party organized exclusively in its own class-interest.

The history of independent labor parties in modern politics shows conclusively that the organization of a special lower-class party is not such a promising policy from the standpoint of the workers as might be supposed in view of the numbers of the laboring classes. It is unpromising even in states in which the industrial wage-earners form a clear majority of the whole population. In Great Britain the proletariat, estimated in accordance with Marxist principles, must greatly outnumber the rest of the population. Yet the official Labor party, together with various independent labor and socialist parties, has never been able to elect a majority of the parliament. At the general election of 1929, when the Labor party won its greatest victory, it secured 296 of the 615 seats in the House of Commons. Of these 296 Labor party members 150 were trade unionists, a bare majority of the total party member-

ship in the House. Of the others, 68 belonged to the intermediate category, being chiefly journalists and teachers, 28 were active financiers or industrialists, 19 were land-owners or retired businessmen, and 31 were distributed among various other occupations. In the general election of 1931, when Labor suffered a great defeat, only 32 trade unionists were elected, the other 33 Labor party members returned to Parliament in that election being divided among the middle and upper classes much as before.¹ In Germany, at the general elections under the Weimar Constitution from 1920 to 1932, independent labor parties possessed the fairest field for their candidates ever enjoyed by such parties in any capitalistic society. In Germany also the proletariat, as defined by the Marxists, outnumbered all the other classes of the population combined. Yet the two leading independent labor parties, the Social Democrats and the Communists, never succeeded in electing a majority of the Reichstag or in presenting a united front to their middle and upper-class opponents.

In the Soviet Union, also, the record of partisan political activity is discouraging from the standpoint of the workers. An independent labor party, operating in the name of the proletariat, has dominated the political scene ever since the Bolshevik Revolution in 1917. But the dictatorship of the Communist party has been in practice a dictatorship of the party leaders. A small group of professional labor organizers and politicians seems to be more strongly entrenched in power than any governing group in the capitalistic countries. This result is by no means surprising. In the first place, it is

¹ See the tables compiled by Professor Harold J. Laski and published in *Time and Tide*, June 7, 1929, and in *The New Statesman and Nation*, October, 1931, respectively.

precisely what the Leninist political philosophy calls for and what Lenin himself candidly avowed to be his object. Secondly, it is the natural effect of the Soviet system of representative government.

The Soviet system is a system of indirect representation. It closely resembles the representative system formerly established for political parties in the United States, when the delegate convention first supplanted the legislative and congressional caucus for the nomination of party candidates for elective office. The party voters used to elect delegates at the primaries to the County Convention, which in turn elected delegates to the State Convention, which in turn elected delegates to the National Convention, which in turn chose the National Committee, which in turn chose the Executive Committee, which controlled the central organization of the party. At each remove from the primary the voice of the rank and file became fainter, until at last it became almost inaudible. The Soviet system operates in the same way. The members of the Communist party in Russia dominate the Soviets, as the members of the party machines in the United States before the introduction of direct primaries dominated the major parties. Since the *Communist party itself* is similarly organized, a little group of purposeful men, the Communist party bosses, are able to control the government of the Soviet Union. Such a party dictatorship is a great improvement over the type of oligarchy which ruled Russia before the March Revolution of 1917. From the standpoint of the workers it is an acceptable form of government, as long as the Communist party bosses put the interests of the proletariat ahead of all other interests in the state. But such a form of government offers little opportunity to the rank and

file to get rid of faithless or incompetent rulers. It cannot be regarded, even from the special point of view of the workers, as a final solution of the problem of government in the modern state. Trotsky and his followers in the Communist party of Russia made the same bitter discovery as many defeated factional leaders in American party politics, who found themselves unable to cope with hostile bosses in control of the regular party organization. The forms of government may change, but the fundamental principles of politics remain the same.

There have been many independent labor parties in American politics. In national politics there has been at least one such party with a Presidential ticket in the field at every election since 1872, and at all elections in the last half-century there has been more than one independent labor party ticket. These parties fall into two general groups, the socialistic labor parties and the non-socialistic parties. The latter have sometimes developed considerable support among urban and rural workers, but have shown little capacity for survival from one campaign to the next. The former have shown remarkable longevity, but their stunted growth has disappointed their followers. In 1932 the Socialist Labor, Socialist, and Communist parties together polled barely a million votes in a total of nearly forty millions. The first of these was originally organized in 1876 and has nominated a Presidential ticket in every campaign since 1892. The other two date from 1899 and 1919 respectively. On the face of the election returns they have been much less effective agencies for the representation of labor than the non-political labor organizations. No independent labor party has ever succeeded in organizing a following nearly as numerous as that of the

Knights of Labor in the 1880's or the American Federation of Labor in recent years. Several of the independent labor parties have temporarily succeeded in bringing forward new issues and demonstrating such popular interest in them as to force their adoption by one or both of the major political parties. The socialistic parties seem to have exerted more continuous influence upon public opinion, directing attention to collectivistic policies abroad and accelerating the demand for similar policies in the United States. But none of them has gained much influence in the constitutional representative bodies. In short, the independent labor parties have contributed more to the instruction of the public than to the making of laws. They have functioned rather as educational institutions than as instruments of government.

In the modern industrial state there will always be politicians to organize lower-class parties and members of the lower classes to follow them. But there is little ground for the belief that such lower-class parties will be able to dominate any modern state in which there are two strong middle-class parties with intelligent and spirited leadership. The elements which, under suitable leadership, may develop middle-class consciousness are too numerous, and the boundary between the middle and lower classes in the modern state is too obscure to make the prospects of purely proletarian parties in American politics attractive to the most intelligent labor leaders. Under the leadership of Samuel Gompers the American Federation of Labor set itself firmly against all projects for the organization of independent labor parties. The leaders of organized labor might throw their influence against candidates for Congress or the State legislatures, regardless of party, when-

ever deemed unfair to labor, but they steadily refused to become involved in schemes for the organization of new parties, or for unqualified endorsement of the old. The failure of organized labor's campaign for the Independent party Presidential candidate, Senator LaFollette, in 1924, attested the wisdom of the Gompers non-partisan political policy. The general change which characterizes all genuinely neotechnic industry, Lewis Mumford believes, is the displacement of the proletariat by the middle class.² If Mumford is correct in this belief, the ultimate prospects of all independent lower-class parties are poor. Be that as it may, the immediate outlook for the extension of the influence of the workers is certainly brighter through the strengthening of non-political labor organizations than through the organization of independent labor parties.

Whatever labor leaders and members of the laboring classes may think of the comparative prospects for independent labor parties and non-political labor organizations, there can be no doubt where the interest of the middle class lies. Sound middle-class politics requires the maintenance of a proper balance between the power of money and the weight of numbers in the structure and processes of government, but it has nothing to gain from the growth of independent lower-class political parties. It has much to gain, however, from the growth of non-political labor organizations. In the furtherance of political stability, which is the basis of progress as well as of order in the modern state, it is desirable that the special class-organizations of the capitalists should not over-balance the special class-organizations of the workers. If capitalistic chambers of commerce and trade associations are destined to flourish in the next stage of

² See L. Mumford, *Technics and Civilization*, pp. 224-229.

the developing political order, it is desirable that labor organizations and trade unions should also flourish. It is not only the interest of the workers that requires their strengthening but that of the middle class as well. The maintenance of the power of the middle class depends upon the preservation of an equilibrium between the upper and lower-class organizations. If there are not to be strong independent labor parties, there must be strong labor or industrial unions.

The most important of the non-political agencies for the representation of labor are the trade and industrial unions affiliated with the American Federation of Labor. At the height of its power, following the World War, the American Federation of Labor claimed a membership of over four millions of workers. At that time the total number of organized workers in trade and industrial unions of all kinds probably did not greatly exceed five millions.³ This doubtless represented more than a fifth, but certainly less than a quarter, of the American proletariat. The years of the "Coolidge prosperity" were not favorable to the growth of trade unionism and the ensuing depression hurt the finances of organized labor as well as of organized capital. The A. F. of L. methods of organization have never been equally effective in the different fields of labor. Most successful in the fields of mining and the building trades, the A. F. of L. organizers had done less well in the manufacturing industries. They had been unsuccessful in organizing the white-collar workers and the unskilled manual laborers. Several of the most powerful industries, notably the iron and steel and the automobile industries, refused resolutely to come to terms with organized labor. At the

³ See Leo Wolman, *The Growth of American Trade Unions, 1880-1923*.

beginning of the Roosevelt Administration the fortunes of the American Federation of Labor were still ebbing.

The passage of the National Industrial Recovery Act opened a new era in the history of labor representation. Section 7A provided: (1) that employees of members of an industry, which have subscribed to a code of fair competition, shall have the right to organize and bargain collectively through representatives of their own choosing, free from interference by their employers; (2) that no employee and no one seeking employment shall be required as a condition of employment to join any company union or to refrain from joining a labor organization of his own choosing; and (3) that employers shall comply with the maximum hours of labor, minimum rates of pay, and other conditions of employment, approved or prescribed by the President of the United States. This section was designed to secure for the workers liberty to organize unions and establish fair conditions of employment equivalent to that enjoyed by employers to organize trade associations and industrial institutes and establish fair trade practices. The Act favored the employers by suspending the Federal anti-trust laws, in so far as they might otherwise have applied to combinations for making or administering the codes of fair competition, subject to the proviso that monopolies and monopolistic practices should not be permitted under the codes. The intention of the framers of the Act was to compensate the workers for this favor to the employers by protecting their right to organize and encouraging the practice of collective bargaining. This intention was clearly expressed in Section 7B, which declared that the President should afford every practical opportunity to employers and employees to establish by mutual agreement such conditions of

employment as would encourage national industrial recovery.

The leaders of the American Federation of Labor were eager to take full advantage of their opportunities under the N. I. R. A. For such an enterprise their organization possessed certain indisputable qualifications. It had gained the confidence of a greater number of workers than any other labor organization. It had developed practical methods for representing the special interests of the workers. Professor H. L. Childs, in his interesting work, *Labor and Capital in National Politics*, has made an instructive comparison of the methods of expressing the opinion of their members, employed by the American Federation of Labor and the Chamber of Commerce of the United States, and of influencing the action of the Congress and the Federal administrative officers. He believes that both the Chamber and the Federation have gone further than any other non-political agencies of special interests in working out a policy-determining technique.⁴ Both have developed a more or less standardized procedure for obtaining publicity, influencing elections, controlling legislation, and molding public administration.⁵ The Chamber perhaps excels in the possession of machinery for "educating" the public and the government. The Federation, however, has projected a "high-pressure system for bringing influence to bear upon elections," and "frankly assists the 'friends of labor' and opposes its 'enemies.'" Both organizations seem to Professor Childs to center their attention primarily on securing the passage of favorable legislation or the prevention of legislation deemed inimical to their interests. Both organizations

⁴ Harwood L. Childs, *op. cit.*, p. 171.

⁵ *Ibid.*, p. 233.

were ready to play leading parts in the struggle for power under the new charter of self-government for industry. If the Chamber of Commerce of the United States and its affiliated trade associations and industrial institutes are recognized as the most competent representatives of capital in this new struggle for power, it is impossible to avoid recognizing the American Federation of Labor and its affiliated unions as the most competent representatives of labor in the same struggle.

The American Federation of Labor, however, regarded as an organization for the representation of the workers in the modern state, suffers from certain grave disabilities. In the first place, its claim to the right to represent labor in proceedings under the N. I. R. A. is challenged much more aggressively by other labor organizations than the corresponding claim advanced by the leading employers' associations. Independent trade and industrial unions, especially those organized by Communist agents and antagonistic to the Gompers policy of non-partisan political action, constitute a more serious threat to its leadership of the organized labor movement than that offered to the Chamber of Commerce and the regular trade associations by other organizations on the side of organized capital. Moreover, company unions and other types of employee representation, more deferential to employers than the A. F. of L. unions, are not prohibited by the N. I. R. A., and there is nothing in the Act to prevent the organizers of such unions from competing with the A. F. of L. organizers for the support of the workers, provided that there is no active interference with the workers' efforts to organize by the employers or their agents. Finally, the organization of the A. F. of L. itself is not as well-suited to the requirements of the new struggle for power as that of

the trade associations and industrial institutes on the side of organized capital. The trade or craft union, which is the typical form of organization under the A. F. of L., is less capable of representing the interests of labor effectively under the highly-mechanized conditions of the modern power age than under the simpler conditions of a generation ago. The A. F. of L. has admitted to membership some industrial unions, more capable of treating on equal terms with representatives of the organized industries than the old-fashioned trade unions, but the organization of industrial unions has been too often hampered and retarded by the trade unions already in the field.

The labor organizers of the A. F. of L. were hindered in the struggle for power under section 7 of the N. I. R. A. by the uncertainty which developed concerning the interpretation of the section. Before the Act was passed, the principal employers in many large industries would not permit their workers to organize unions; they would not deal with any kind of union. Upon the passage of the Act, they hastened to form unions under their own auspices and sought by means of these company unions to keep the regular unions from gaining an entry into the industry. The resulting disputes between rival unions were brought to the National Recovery Administration for settlement. The National Labor Board, set up under the chairmanship of Senator Robert F. Wagner in order to settle these disputes, found in some cases that it was practically impossible to determine which of two competing unions should actually represent the workers in negotiations with the employers. It had the power to make a decision, but it could not enforce its decision. The employer insisted upon the right to determine for himself with whom he would negotiate. In

other cases, when the Board itself could not decide which union was entitled to represent the workers, it wished to determine the question by holding a special election for the purpose, in which all the employees concerned, regardless of their membership or non-membership in company unions or regular unions, might participate. But the Board found it had no power to conduct such elections. In some cases it obtained the consent of the employer to conduct an election, but in others it was openly defied by employers and found itself powerless to reach a settlement.

Under these circumstances it is not surprising that organized labor was less successful than organized capital in taking advantage of its opportunities under the N. I. R. A. To be sure, the membership of unions affiliated with the American Federation of Labor and also of other independent unions increased rapidly. But the results were disappointing to the leaders of organized labor. The membership of the company unions increased for a time even more rapidly than that of the regular unions. In the face of the growing solidarity of organized capital, the unity of organized labor seemed more remote than ever before.

The company union system of labor representation constituted no new threat to the regular trade and industrial unions. Schemes for employee representation under the auspices of the employers had been discussed for years, and interesting experiments had been tried in various industries. One of the most noteworthy of the early experiments was the system of industrial councils set up before the World War by the Colorado Fuel and Iron Company. The immediate occasion of the experiment was the desire of the owners of the company to bring about better relations between the management

and the workers following a bitter struggle in the Colorado coal-fields. The shortage of labor during the War and the urgency of industrial peace in the war industries put a premium upon projects for establishing better relations between capital and labor. Many of the leading employers in the United States, encouraged by the National War Labor Board or acting independently, adopted more or less elaborate plans for the representation of their employees in permanent industrial or works councils. Notable among such plans were those of the Bethlehem Steel Corporation, the General Electric Company, the International Harvester Company, and the Standard Oil Company of New Jersey.

After the War there was considerable interest in these plans for a time, but the passing of the labor shortage and the impaired strategic position of labor diminished their importance. Experimentation with company unions and other forms of employee representation under the auspices of employers continued down to the passage of the N. I. R. A., but, until the hands of the employers were forced by the enactment of Section 7, interest in the subject remained much less active than during and immediately after the World War. In 1932, according to an estimate by the National Industrial Conference Board, there were three hundred and thirteen companies, employing a million and a quarter workers, which had set up company unions or adopted other arrangements for collective bargaining with representatives of their employees. Three-fourths of these workers were employed in establishments with more than ten thousand workers each. In the smaller establishments experimentation with systems of labor representation under employer supervision was of secondary importance.

The company unions and other dependent systems of employee representation possessed certain advantages over the independent trade and industrial unions under the conditions existing prior to the legal establishment of collective bargaining by the National Industrial Recovery Act. In the first place, the company unions introduced the idea of labor representation and collective bargaining into industries where the employers were determined not to recognize the regular unions nor to deal with representatives of their employees selected by independent organizations. In such industries the organization of labor could not have been brought about at that time in any other way. Secondly, these labor organizations, though dependent for existence upon the goodwill of the employers, provided practical experience in labor representation for large numbers of workers. This was an important contribution to the education of the workers for effective participation in more responsible types of representative institutions. Thirdly, the members of the shop committees and work councils, organized under company systems of employee representation, though unable to impose any substantial limitations upon the authority of the employers, were able to limit in some measure the authority of foremen and other subordinate company officers. This was a distinct gain in the struggle for more effective forms of representative government in industry. Without doubt the company unions and other dependent systems of employee representation were very inferior substitutes for the institutions of industrial democracy of which there had been much vague talk during the later stages of the World War. But, since genuine schemes of industrial democracy and the superior substitutes therefor, such as the celebrated Plumb Plan, came to nothing, the experi-

mentation with company unionism contributed something of value to the development of labor representation in American industry.

The company unions and other dependent systems of employee representation, however, were incapable of solving the problem of labor representation. They could not command the confidence of labor to the same extent as the independent unions in the handling of the more important items in the labor contract. Questions of wages and hours involve interests of so vital a nature both to capital and to labor that the negotiators on each side must be in positions of equal strength, if the process of collective bargaining is to obtain the respect of the parties. As long as the employer can terminate at pleasure the employment of the workers' representatives, and the workers cannot retaliate by withdrawing their labor from the employer's service, the position of the negotiators is too unequal. But if the workers are free to strike at their discretion, or if their representatives can with impunity threaten to call a strike, the employers are likely to find dependent systems of employee representation little less objectionable than collective bargaining with the officers of independent unions. Company unions, if aggressively led by the workers' representatives, are likely to get out of hand and become dangerous to the employer, who wishes to maintain unimpaired his mastery over his establishment. If they are provided with submissive and complaisant leadership, the employees are likely to lose faith in them. Despite the undoubted success of some of the company union and employee representation schemes within limited fields of action, this system of labor representation was still in the experimental stage when the depression came. Financial troubles embarrassed em-

ployees' associations and company unions as well as independent unions. All kinds of institutions for the representation of labor were struggling to hold their own at the beginning of the New Deal.

The official endorsement of collective bargaining in the National Industrial Recovery Act brought an acute crisis in the development of labor representation. In the first place, it precipitated the inevitable conflict between the various forms of labor representation for supremacy. Neither the independent labor organizations nor the company unions and other dependent systems of employee representation could consent to the assumption by the other of the right to represent the workers in the effort to restore prosperity by shortening the hours of labor and raising wages. Secondly, it involved the Federal government itself in the problem of labor organization. The government could not reasonably require employers to bargain collectively with representatives of the workers without guaranteeing that the workers' representatives should be fairly representative of those whom they claimed to represent. In view of the controversy between company and independent unions, the government could not do less towards discharging this responsibility for the establishment of fair systems of labor representation than to supervise the process of selecting the representatives of labor. Thirdly, it raised the question whether the Federal government should not create a governmental system of representation for labor as it was doing for capital through the organization of the code authorities. An alternative to the creation of an independent governmental system of labor representation was the appointment of labor representatives to the industrial code authorities with a

voice and vote in all matters affecting the interests of labor.

The conflict for supremacy between the company unions and employees' associations, on the one hand, and on the other the independent unions, both those affiliated with the American Federation of Labor and those organized under Communist and other auspices, extended to the broad field of American industry as a whole a struggle which had already raged on the narrower field of railroad transportation. The public had long demanded that essential utilities like the railroads be operated continuously, and gradually recognized that continuous operation was contingent upon the establishment of the right relationship between the company executives and the workers. By the Transportation Act of 1920 a system for the conciliation and arbitration of labor disputes was set up, which it was hoped would prevent the recurrence of such emergencies as that which had compelled Congress in 1916 to enact the Adamson Eight-Hour Law.

The labor provisions of the Act of 1920 were based upon the principle of collective bargaining, and implied the acceptance by the companies as well as by the railroad unions of a moral obligation to reduce the principle to successful practice. This obligation was discharged well enough in so far as the relations between the companies and the four train-workers' brotherhoods, the engineers, firemen, conductors, and trainmen, were concerned. But it did not work out so well in the other branches of the railroad service. After the strike of the shop-workers in 1922 many companies established company unions to represent their shop-crafts employees. Friction between the company unions and the independent shop-crafts unions strained the

relations between the companies and their employees and demonstrated that the labor provisions of the Transportation Act of 1920 would have to be strengthened. By the Railway Labor Act of 1926 the right of the employees to organize and to bargain collectively was asserted in language similar to that subsequently adopted in section 7A of the N. I. R. A. Nevertheless many railroads continued to deal with the company unions and tried to prevent their employees from joining the independent unions. By the Emergency Transportation Act of 1933 this conflict was settled. The railroads were forbidden to organize or to help support company unions or to interfere in any way with their employees in the exercise of their right to organize and to choose representatives. The Federal Coördinator of Transportation, Mr. Eastman, ordered the railroads to give no more aid to company unions and to desist from all efforts to dominate their employees' associations. He conducted elections among various groups of railroad workers on different roads to determine whether a majority of the workers preferred a company union or an independent union, and ordered the companies to abide by the results of the elections and recognize for purposes of collective bargaining the representatives preferred by a majority. The result of this policy was the general triumph of the independent unions.

The leaders of the American Federation of Labor desired the same result in all branches of industry under the N. I. R. A. They claimed that the majority of the workers in every industry preferred, or would prefer, if free to express their opinion without fear of adverse discrimination by their employers, the independent to the company unions. They argued that the majority was entitled to choose the representatives of all, and

that the independent unions should be recognized, therefore, as the proper instruments of labor representation. This conclusion was valid, they urged, by the same reasoning that led to the recognition of the trade associations as the regular organizations for the representation of capital. Collective bargaining, they believed, could be successful only if based upon a unified system of representative institutions on each side. It meant collective bargaining on the part of employers as well as of employees. It meant that the individual employer should not bargain separately with his own employees, but that the representatives of each side should deal with the representatives of the other, to the end that uniform wages and working conditions should obtain for the same services throughout all establishments in the same industry. The N. I. R. A. expressly sanctioned a limited acceptance of this view by providing for maximum hours of labor and minimum wages in the codes of fair competition. The A. F. of L. leaders demanded the extension of the same attitude to the negotiation of agreements affecting all wages and all conditions of employment.

The advocates of company unions and employees' associations resisted these conclusions. They denied the correctness of the analogy between the business of railroad transportation and industry in general. The railroad companies, they conceded, owe a special obligation to the public in return for the special privileges conferred upon them by the government. They discharge this obligation by submitting to the regulation of their rates, services, and relations with employees. But the proprietors of ordinary businesses enjoy no equivalent privileges. To be sure, under the N. I. R. A. members of an industry are relieved of the restraints of the

Federal anti-trust acts. But this relief is only temporary and may end with the emergency. To require employers to recognize a particular kind of union and to bargain only with representatives of their employees selected by that kind of union would be equivalent to establishing a system of labor representation, to which the employers were opposed, and forcing it upon all industries, regardless of their differences of condition, under cover of the emergency. Since it probably would be difficult to alter the system after the emergency passed, such a policy seemed to take an unfair advantage of employers. A permanent decision between different systems of labor representation should be postponed, these employers argued, until the recovery of prosperity. Meanwhile, various representative systems could be tried and the lessons of experience would be duly noted. The N. I. R. A., according to their interpretation of section 7A, sanctioned various systems of employee representation, and each employee was entitled to the particular kind of representative system he preferred. Employers should be free to deal with employees' representatives of every kind and to agree upon terms of employment with those found most agreeable.

Such an argument can be settled only by the logic of events. This mode of settlement does not point toward the same result in every industry at the same time. In the railroad industry strong independent unions have existed for many years. The attempt to supplant them by company unions created too much friction. The right of the companies to try such an experiment had to yield to the right of the public to continuous service. In most other industries interruptions of service are less injurious to the public. In few of them are the independent unions as strong and competently led as in

railroad transportation. In some of them employers have been able to get along with the independent unions tolerably well. In others, notably the iron and steel and the automobile industries, the employers have been unwilling in recent years to try to get along with the independent unions. The independent unions have not yet settled among themselves the basis of organization. The old-fashioned trade unions and the more modern industrial unions still contend for the mastery of organized labor. It is too soon to standardize the forms of labor representation. Company unions and employees' associations may prove of permanent value alongside the independent unions. Some of the experiments with joint factory and shop committees and works councils are very promising. It is desirable to represent the special interests of workers employed in large plants as well as the general interests of labor in a whole industry. It may well be that different types of labor representation must be maintained in order to meet these different needs. Experimentation ought to continue until the most suitable arrangements for the various relationships between employer and worker shall have been determined. This is one of the most important tasks in the further development of the institutions of the modern industrial state.

Experience quickly showed that the National Recovery Administration could not afford to stand aside while capital and labor experimented with systems of labor representation under section 7A of the N. I. R. A. The A. F. of L. would have sought to establish a monopoly of labor representation and put an untimely end to all further experimentation by employers. The more powerful of the employers' associations would have sought to close their shops to the independent

unions and frustrate the efforts to organize collective bargaining on an industrial instead of company basis. Speaking before the Conference of Code Authorities at Washington, March 6, 1934, William H. Davis, National Compliance Director of N. R. A., stated that an investigation of plans for employee representation in the automobile and steel industries, prepared by employers, revealed provisions which were "continuing violations of the spirit of section 7A and continuing interference with the right of self-government of the employee." As an example of such provisions he mentioned one "commonly found in those plans" to the effect that there should be no change in the self-organization of the workers without the approval of the plant manager. This, he declared, was a "continuous interference with self-organization." If both organized capital and organized labor were to be free to experiment with systems of labor representation in competition with one another, it was necessary that the competition be fair.

Various expedients were proposed to insure fair competition between organized capital and organized labor in the development of labor representation institutions. Senator Robert F. Wagner, chairman of the National Labor Board, was charged with the responsibility for the adjustment of disputes growing out of the experimentation under section 7A of the N. I. R. A. He became convinced that section 7A was too vague and that unfair labor representation practices should be defined by law and prohibited like other kinds of unfair competition. To this end he introduced a bill into the second session of the Seventy-Third Congress, designed to drive company unions out of the industries under the N. I. R. A. as they had already been driven out

of the railroad transportation industry. Organized capital was strong enough to defeat the Wagner Labor Disputes Bill, and at the instance of President Roosevelt a joint resolution was substituted for it, creating a new National Labor Relations Board to take the place of Senator Wagner's National Labor Board. This Board was authorized to investigate disputes arising out of section 7A, received the powers necessary for making effective investigations, and was empowered also to hold an election among the workers in any establishment, if necessary, for the purpose of ascertaining their preference concerning the choice of representatives. This Board was further empowered to act as a board of conciliation or of arbitration in cases where the parties should agree to arbitrate a dispute, or to hear appeals from special boards of conciliation and arbitration established in such cases. Such special boards had already been established for certain important industries, notably the automobile and steel industries. The powers of these labor relations boards, however, were limited, like those of the N. I. R. A., to the period of the emergency.

The creation of the National Labor Relations Board is the most promising of all the recent experiments with institutions for the representation of labor. There is still nothing in the law to compel employers to enter into agreements concerning wages and other conditions of employment with labor representatives chosen at elections, held under the direction of the Board, or appointed by independent unions in pursuance of the result of such elections. But such elections will enable the public to know which side is at fault when employers refuse to meet the representatives of labor for the purpose of collective bargaining under section 7A,

and public opinion should be a substantial reinforcement for the innocent party in such a dispute. The law provides penalties for interference by employers with elections held by the Board and should make it possible for the workers in industries under the N. I. R. A. to experiment with whatever forms of labor representation they please. This is a great gain in the struggle to establish suitable institutions for the modern industrial state.

Some labor leaders have wished the Federal government to go beyond the supervision of elections for the choice of labor representatives and set up a system of labor representation of its own. Various proposals have been advanced with this end in view. The most important of these proposed to utilize the code authorities for the purpose of representing labor as well as capital. Speaking before the Conference of Code Authorities at Washington, March 5, 1934, John L. Lewis, President of the United Mine Workers, called attention to the fact that labor was represented on very few of the code authorities which had been established up to that time. Of the first 180 code authorities, he stated, only fifteen contained representatives of labor. This, he declared, was a mistake. "I am convinced," he said, "that adequate representation should be given to organized labor and consumers on all code authorities. This representation should not be merely advisory but active. . . . Moreover, such representation should not be restricted to codes hereafter formulated, but codes already approved should be revised to include labor and consumer representation upon code authorities." He suggested, therefore, that representatives of labor be appointed by the Administrator from panels submitted by the Labor Advisory Board of the N.R.A.

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President Lewis offered three reasons in support of his proposal. First, labor representation on the codes would give labor confidence that the codes were being properly administered. Secondly, the point of view of labor, as reflected in the deliberations of the code authority, would be valuable to the industry itself. Thirdly, the coöperation of labor would be essential, in his opinion, to the satisfactory policing of the codes. This proposal was not endorsed, however, by any influential spokesman for the employers. On the contrary, it was clear from their observations at the Conference of Code Authorities that they regarded the code authorities as representatives of capital exclusively and that they preferred to conduct the proceedings of the code authorities without the presence of representatives of labor. After some hesitation the Administrator decided this argument in accordance with the wishes of the employers. On March 31, 1934, General Johnson issued an order directing all industries operating under codes to create industrial relations committees or boards for the adjustment of labor disputes and complaints. A number of industries had previously established such agencies. They were now made a part of the regular system of industrial organization in lieu of special labor representatives on the code authorities.

The general exclusion of labor members from code authorities was a sound policy. To be sure, the existing labor members had not caused serious friction. In a few industries, such as the men's clothing industry, close coöperation between the representatives of labor and of capital had long been practiced and labor members could apparently serve on the code authorities without embarrassment to themselves or to the representatives of the employers. In other industries, such as radio broad-

casting, the conditions of employment were exceptional, and established traditions did not discourage a more intimate relationship between labor and capital on the code authorities. But in general the code authorities were dominated by employers who were not ready to take the workers' representatives fully into their confidence, and separate industrial relations committees were the only practical alternative to secret meetings of the employers' representatives, which would have been resorted to for the purpose of getting rid of labor members, if labor members had been appointed to all the code authorities. These industrial relations committees are in effect joint committees of employers and workers for whole industries and constitute a substantial advance in the development of representative institutions in industry. They should strengthen both the code authorities, to which they are subordinated, and also the labor organizations, whose efforts to practice collective bargaining would be aided by them.

The activities of the National Labor Relations Board and of the industrial relations committees, set up for industries under the N. I. R. A., if adequately supported, should eventually produce a system of representation for labor as extensive as that which capital has created for itself through the trade associations. The encouragement of the practice of collective bargaining should in the long run be as favorable to the development of institutions for the representation of labor as the encouragement of trade practice conferences and codes of fair competition has been to the development of institutions for the representation of capital. Without doubt the immediate effects of the Federal government's entrance into the field of industrial and labor organization have been more favorable to capital than to labor. Capital

was better prepared than labor to take advantage of its opportunities. While the railroad employees, coal miners, and workers in the building and union label trades possessed organizations well-qualified to practice collective bargaining, labor in many other fields lacked both the organization and the experienced leadership necessary for such an enterprise. But if the policy of governmental aid for industrial self-government and collective bargaining is continued beyond the emergency, the organization of labor will inevitably become more nearly a match for the organization of capital.

It is not necessary for the success of collective bargaining that any particular type of labor organization should possess a monopoly of the representation of labor. As long as the elections for the choice of the workers' representatives are efficiently and fairly conducted, competition among organizations aiming to represent the workers should give greater vitality to the process of representation. Just as a bi-partisan or multi-partisan system of politics makes for better representation of the people of a state than a single-party system, so the rivalry of various types of unions should make for better representation of the workers in self-governing industries. It is unlikely that the American Federation of Labor will be permitted to have the field to itself in the predictable future. Even if the company unions could be driven from the field, the Communist unions would not retire from the struggle. The labor organizations in an industry should have the same freedom as the trade associations to secure whatever following they may. A trade association, if fairly representative of an industry, is permitted to nominate the members of the code authority for the industry. A trade union, if fairly representative of the workers in an industry, should be

permitted to nominate the workers' representatives for the purpose of collective bargaining. It is not necessary that the Federal government determine which trade associations and trade unions ought to be chosen to represent employers and employees, respectively, in the various industries. It is enough that the Federal government determine whether an association or union is fairly representative of capital or labor in a particular industry.

There may well be differences of opinion concerning the desirability of fostering the development of special institutions for the representation of capital and labor. Many capitalists may feel that the general organization of labor under the auspices of the government is too high a price to pay for the privilege of forming combinations in restraint of trade as under the N. I. R. A. Many labor leaders may feel that equality of opportunity for all kinds of labor organizations is too high a price to pay for the promotion of collective bargaining as under the N. I. R. A. There is no clear answer to capitalists or labor leaders who feel dubious about this great experiment. But there can be no question how members of the middle class should feel about it. If the upper and lower classes in the modern industrial state are to be kept subordinate to the middle class in the constitutional organization of the state, it is important that there should be suitable institutions for the representation of their special class interests. It is not essential that these institutions should constitute complete systems of representation for capital and labor, independent of the regular organs of representative government. But it is necessary that capital and labor should not be too unequally represented, lest one class

overbalance the other and destroy the equilibrium of the state.

The preservation of the supremacy of the middle class is conceivable under a political system which both denies to labor its fair share of the representation in the constitutional government and discourages the organization of special institutions for the representation of labor interests. But the supremacy of the middle class would be more secure in a state where under-representation of labor in the constitutional organs of representative government is offset by the development of special non-political organs for the representation of labor. In the United States at the present time the special institutions for the representation of both capital and labor need further development, but the institutions for the representation of labor need governmental aid more than those for the representation of capital in order to maintain the balance between the upper and lower classes and preserve the ultimate supremacy of the middle class.

IV

THE REPRESENTATION OF MANAGEMENT

THE problem of stabilizing the modern class-conscious state is complicated by the growing separation between the ownership of capital and the management of capitalistic business. An owner of capital, that is, a capitalist, is by no means necessarily the enterprising man of affairs acclaimed in Adam Smith's *Wealth of Nations* as the unit of energy in the capitalist system. He may be merely an investor, leaving the promotion and direction of business undertakings entirely to others. Smith himself recognized a distinction between ordinary capital and "such a capital as the owner does not care to be at the trouble of employing himself." Ordinarily in Smith's time the employer of capital was the proprietor of a business, promoted or at least directed and managed by himself. The model employer of eighteenth-century rugged individualism is best represented to-day by the small-town garageman or filling-station proprietor. The investor, as distinguished from the land-owner or merchant-adventurer or money-lender, was hardly known in the business order with which Adam Smith was acquainted. Speaking of capital which the owner did not care to be at the trouble of employing himself, Smith observed: "As such capitals are commonly lent out and paid back in money, they constitute what is

called the monied interest. It is distinct, not only from the landed, but from the trading and manufacturing interests, as in these last the owners themselves employ their capitals."¹ It was the trading and manufacturing interests, not the monied interest, that challenged the vested political ascendancy of the landed interest at the beginning of the great industrial revolution. Generally during the infancy of rugged individualism capital ownership and business management went hand-in-hand together.

To Adam Smith and the other pioneer thinkers of the individualistic school of economic and political philosophy the promise of the new individualism seemed to depend largely upon the union of business management and capital ownership. Such a separation between the two as is facilitated by the corporate form of business organization carried with it a threat to the efficiency of the business system that made the early individualists skeptical of the future of the business corporation in ordinary competitive industry. They had no hope that high efficiency could be attained in businesses conducted by incorporated companies with numerous stock-holders not actively connected with the management. "The only trades which it seems possible for a joint-stock company to carry on successfully, without an exclusive privilege," Smith wrote, "are those of which all the operations are capable of being reduced to what is called a routine, or to such a uniformity of methods as admits of little or no variations."² He indicated the kinds of business which seemed suitable for capitalistic corporations to undertake without the grant of a legal monopoly. They were banking, insurance,

¹ *The Wealth of Nations*, Book II, Chap. IV.

² *Op. cit.*, Book V, Chap. I.

the operation of canals, and the maintenance of water supply systems. In all other businesses, he believed, the only form of organization that could carry on successfully in the face of free competition was that which consists of the individual businessman, managing his business himself, or at most in the company of a few partners, without any limitation of personal liability or other special privilege. The spirit of the new individualism was originally and apparently fatally hostile to the modern business corporation.

The corporate system of business organization was gradually and in the course of time greatly improved. Businessmen learned how to organize business activities on a large scale, combining huge capitals with vast numbers of workers in a single enterprise, and competing successfully with individuals working on personal account and enjoying by themselves alone the full product of their labor and capital. In the great business corporation of modern times the divergent interests of masses of wage-earners, having no financial interest in the product of their labor beyond their daily wages, of a multitude of investors and speculators, whose interest in the business may be limited to a stipulated return on their investment or to the chance of a lucky play in the stock market, and of the operators and executives, whose compensation may also be fixed without much regard to the actual profits of the enterprise, have been reconciled to a degree that Adam Smith could not have supposed possible. The new loyalties, indispensable for the efficient coöperation of such different and superficially adverse interests, have developed to such a point as to supply a new business morality capable of sustaining the new industrial order. In our own time the business corporation has supplanted the individual

businessman as the principal agency of enterprise in the capitalist system. The conflicting interests of executives, investors, speculators and wage-earners cause much friction, conflict and mutual injury. The corporate system does not work well. But it has worked better in modern industry than the system of individual proprietorship envisaged by Adam Smith and the early individualists.

The triumph of the corporation over the individual in the modern industrial system offers the most convincing evidence of the practical superiority of the corporate form of organization under modern conditions. For example, there are the estimates of national wealth, which show roughly how the business capital of the country is divided between incorporated and unincorporated businesses. According to the best available estimates, the total national wealth before the beginning of the depression amounted to approximately 360 billions of dollars.³ Of this amount nearly three-fifths was presumably business wealth. Of the business wealth between three-fourths and four-fifths belonged to corporations.⁴ In other words, measured by the value of business property, incorporated business was three or four times as important as unincorporated business. Private businessmen, operating alone or in partnership with others, were a minor factor in the management of business. The system of individual proprietorship, envisaged by Adam Smith and the early individualists, can no longer furnish the basis for an acceptable economic and political philosophy.

The income tax returns point toward the same con-

³ National Industrial Conference Board, Bulletin No. 38, p. 303.

⁴ Berle and Means, *The Modern Corporation and Private Property*, p. 31.

clusion. In the last year before the depression a few more than one million persons reported net incomes of five thousand dollars or more. Of these persons two hundred and twenty thousand reported income derived from businesses or professions and five hundred and sixty-nine thousand reported income derived from dividends on stock of domestic corporations. The figures for persons with net incomes of less than five thousand dollars are unfortunately incomplete. They are available, however, for all persons required to make income tax returns and include all but the very smallest business incomes. The total amount of net income derived from all individual businesses and partnerships was estimated at over five billions of dollars and the total amount of dividends derived from stock of domestic corporations was estimated at four and a third billions of dollars. But the total net income of the two hundred and sixty-eight thousand corporations, which reported net income for that year, amounted to ten and three-fifths billions of dollars. Including the interest of stockholders in undivided profits of profitable corporations, business corporations earned for their stockholders in that year at the lowest estimate more than twice as much as unincorporated businesses. If it were practicable to estimate also the distribution of salaries between corporation executives and the managers of unincorporated businesses, the distribution of interest between corporation bondholders and the creditors of unincorporated businesses, and the distribution of wages between the employees of incorporated and unincorporated businesses, the importance of corporations in the modern business world would appear at more nearly its true magnitude. But it is not necessary to investigate further the statistics of wealth and income. The dominance of

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the corporate form of business organization is clearly established, and the essential matter is to ascertain the effect upon the individualistic theory of business enterprise.

The individualistic theory of business enterprise rests upon the assumption that ownership and management possess the same interest in the operation of business. The growing separation between corporate ownership and management, therefore, creates a new situation in industry, compelling a reconsideration of the problem which the individualist has supposed to have been settled long ago, namely, the problem of the proper relationship between government and business. The situation is complicated by the differences between the functioning of small and large corporations. Thousands of small corporations are little or nothing more than private businesses, managed by the owners, but endowed by law with separate personalities. The fiction of corporate personality enables the owners and managers to escape some of the legal responsibilities of business activity in their own names and to that extent alters somewhat the psychological foundations for the rugged individualism of Adam Smith. But in the main the owners and managers of these small corporations doubtless respond to the same incentives as the proprietors of unincorporated businesses. It is the large corporations which have transmuted the spirit of the business world and consequently undermined the foundations of capitalist individualism. As Berle and Means have sagaciously observed, the corporate system has done to capital what the factory system did to labor. The factory system separated labor from the control of industry; the corporate system is separating capital also from the control of industry.

There has been much discussion in recent years of the growing separation between ownership and management. Berle and Means⁵ found that 44% of the two hundred largest corporations, exclusive of banks and other financial corporations, possessing 58% of their total wealth, were practically controlled by the managements rather than by the stock-holders. In these corporations the numbers of the stock-holders were so great, their individual holdings were in general so small, and the obstacles to their effective participation in the conduct of corporate affairs were so serious, that the managements, despite small or even only nominal holdings of stock, were able to seize the supreme power and keep it in their own hands. In an additional 21% of these great corporations, possessing 22% of their total wealth, the management was able to maintain control by means of legal devices, such as the establishment of voting trusts and the substitution of non-voting shares for the ordinary shares held by the bulk of the stock-holders. Thus the control of nearly two-thirds of these great corporations, possessing four-fifths of their total wealth, was transferred from the stock-holders to the managements. Moreover, in an additional 23% of these great corporations, possessing 14% of their total wealth, the management appeared to be under the control of a minority of the stock-holders. In the remainder of these corporations the management was controlled by a majority of the stock-holders or by powerful individuals owning a clear majority of the stock. The Ford Motor Company and the Mellon companies were the outstanding illustrations of the latter situation. The Fords and Mellons are doubtless businessmen such as Adam Smith

⁵ Berle and Means, *The Modern Corporation and Private Property*, pp. 94, 116.

had in mind when he wrote his *Wealth of Nations*, though it would be interesting to know what Smith would think of the Ford Motor Company and the Aluminum Company of America, if he could return to earth and view the contemporary American business scene. But such owner-managers are plainly the exception in the administration of modern large-scale industry.

The importance of the separation between ownership and management in the great corporations depends upon the importance of the great corporations themselves. Again the investigations of Berle and Means are most illuminating.⁶ They found that the two hundred largest corporations, exclusive of banks and other financial corporations, owned or controlled nearly one-half of the aggregate wealth and income of all business corporations other than financial. They found also that the two hundred largest corporations had been growing so much faster than the others that, if the same rate of growth were maintained during the next generation, they would control the greater part of the national wealth of every description. Other evidence tends to confirm this conclusion. In the last year before the depression more than half of the aggregate net income, reported by the corporations making income tax returns to the Federal government, was earned by twelve hundred and fifty-eight corporations with net incomes of more than a million dollars each. There is no satisfactory information concerning the exact relationship between amount of net income and size of business. Some of the largest corporations reported no net income in the period of prosperity, and many have failed to earn profits during the depression. But the superiority of the

⁶ *Ibid.*, p. 41.

large corporation as an instrument of industrial proprietorship is incontestable. There can be no doubt that a few thousand of the nearly half a million business corporations in the United States overshadow all the rest in volume of business and economic power. If, as Berle and Means's investigations seem to indicate, the larger the corporation the greater in general is the separation between ownership and management, the large corporation with a management out of control by its legal owners has already become the dominant type of business organization in American industry.

The managements of many large corporations have sought to increase the interest of corporate officers and other employees in the ownership of their corporations by encouraging the purchase of stock. Under many plans of employee stock ownership the offer of stock on specially favorable terms is confined to the higher executives, especially those who are in the best position to increase output and sales through their personal efforts. Some of these plans are in effect little more than schemes to give a bonus to the principal managers themselves. Others extend the privilege of stock-purchase on favorable terms to all employees. Such schemes have often been viewed with suspicion by labor leaders as devices of capitalism to strengthen its power over labor. A few of the plans have resulted in the acquisition of a majority of the stock by executives and other employees. In general they have not succeeded in putting a more than negligible fraction of the stock in the hands of employees. The most conspicuous efforts to encourage stock-ownership by employees have been made by the American Telephone and Telegraph Company and the United States Steel Corporation, but these gigantic corporations continue to be owned by hundreds of

thousands of scattered investors and speculators with an inconsiderable voice in the management, and to be managed by executives with only a minor interest in ownership. Foerster and Dietel's investigations into employee stock-ownership in the United States revealed no ground for supposing that plans for employee stock-ownership were likely in any substantial measure to bridge the growing gap between the ownership and the management of American business corporations.⁷ The heavy losses suffered by employee stock-owners during the depression must tend to cause corporation managements to reconsider the whole policy of encouraging the purchase of stock by employees.⁸

The separation between the ownership of capital and the management of capitalistic business is further increased by the growth and development of what Adam Smith called the monied interest. In the contemporary American capitalist system the monied interest is symbolized by Wall Street, but its ramifications extend into every village important enough to maintain a bank or trust company. The importance of "Wall Street" in the contemporary capitalist system depends largely upon its control of its customers' investments. By directing, or influencing the direction of, business corporations which they do not own the financial interests, centering in New York City chiefly, exert a power which has been seized from the actual owners. The development of interlocking directorates was revealed by the Pujo "money-trust" investigation at the beginning of the Wilson Administration, and was impeded somewhat by

⁷ Foerster, R. F., and Dietel, E. H., *Employee Stock Ownership in the United States* (Princeton, 1926).

⁸ National Industrial Conference Board, *Employee Stock Purchase Plans in the United States* (New York, 1928); and *Employee Stock Purchase Plans and the Stock Market Crisis of 1929* (New York, 1930).

the Federal Trade Commission and Clayton Acts of 1914. There still remains, however, a high concentration of directorships of industrial corporations in the hands of leading financiers. In 1931, according to a study by K. W. Stillman,⁹ partners in J. P. Morgan and Company held twenty-six directorships on the boards of thirteen of the largest corporations in America; directors of the Bankers' Trust Company held twenty-nine directorships on eighteen boards of the largest corporations; and directors of the Chase National Bank held fifty-four directorships on twenty-seven such boards. Testifying before the so-called Pecora Committee on Stock Exchange Practices, Thomas W. Lamont, a leading Morgan partner, argued that the presence of Morgan partners on the board of directors of a corporation did not necessarily mean that the House of Morgan controlled the corporation. The advice of the representatives of the House of Morgan was of course generally sought, but, he insisted, was not always accepted.¹⁰ Mr. Lamont was of the opinion that the importance of interlocking directorates is exaggerated.¹¹

More important probably under existing conditions in widening the gap between legal ownership and actual control of capitalistic industry in the United States is the development of holding companies and investment trusts. In 1933 the Senate Committee on Banking and Currency investigated the affairs of several outstanding instrumentalities of this kind, which apparently had been organized for the purpose of securing the maxi-

⁹ Quoted by George Soule, *The Coming American Revolution*, p. 112.

¹⁰ See *Hearings before the Senate Committee on Banking and Currency*, 73rd Congress, 1st Session, 1933, Part 2, pp. 846-858.

¹¹ *Ibid.*, p. 846. See opposite p. 904 an interesting chart showing that the Morgan partners were directors in a total of eighty-nine corporations, of which there were 537 other directors with seats on the boards of 2,175 additional corporations.

imum amount of influence with the minimum amount of investment. Especially noteworthy among them were the House of Morgan's United Corporation, the Van Sweringens' Alleghany Corporation, and the Pennsylvania Railroad's Pennroad Corporation. In the latter corporation, which owned a majority of the stock of several important railroads and large minority interests in several others, the entire voting power of the stockholders was placed in the hands of three trustees, headed by the President of the Pennsylvania Railroad Company. Testifying before the Senate Committee, leading American financiers admitted that such devices for concentrating control in a few hands might go too far and lead to serious abuses.¹² Many investment trusts have been formed doubtless with no intention of influencing the management of corporations whose securities are bought with the money of the investors in trust shares. But such trusts inevitably set up another barrier between the investor and the control of his property. It is not surprising that stockholders mutely acquiesce in arrangements which reduce them practically to the level of bondholders and other creditors of the corporation they nominally own, and that speculators take a "flier" in the stock of great corporations with no more sense of attachment to the businesses in which they nominally engage than race-track bettors to the horses on which they wager their money.

The growing separation of corporate ownership and management and the growing concentration of influence and control in the monied interest seem natural and right to the great financiers. Testifying on June 9, 1933,

¹² See statements by Otto H. Kahn of Kuhn, Loeb and Company, *ibid.*, pp. 1256, 1317; and by Clarence Dillon of Dillon, Read and Company, p. 1636.

before the Senate Committee on Banking and Currency, Mr. Lamont of J. P. Morgan and Company said: "I do not see just any fundamental weakness in the corporate structure of American business corporations."¹³ But it is evident that this is not the kind of business structure Adam Smith had in mind when he was laying the foundations of the individualistic theory of business enterprise. The modern corporation is more than a form of business organization. It is a veritable institution with a place in the American Commonwealth comparable to that of political institutions of recognized authenticity. It possesses great power, but actual holders of the power are not practically accountable to those who are legally responsible for its use. In default of effective control over the properties which they theoretically own, stockholders tend to fall back upon the power of opinion for the protection of their legitimate interests. There is an increasing demand for the publication of frequent reports by the managements of great corporations and for the independent audit of corporation accounts. Such methods of control, however, are tantamount to an appeal from the legal owners of the corporation to the general sense of the investing public. They look toward the increasing substitution of public opinion for private interest as the regulator of business enterprise. They are consistent with the development of the great business corporation into a quasi-public institution. But they are inconsistent with the traditional dogmas of rugged individualism.

The latest step in the separation of corporate ownership and management consists in the establishment of so-called self-government in industry under the National Industrial Recovery Act. The constitutions of industrial

¹³ *Ibid.*, p. 852.

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self-government are provided by the codes of fair competition and the organs of government are the trade associations and code authorities. The extent to which the organization of industry under the auspices of the N. R. A. has gone is shown by the accompanying table, which gives the number of code authorities established in each of the principal fields of industry down to July 10, 1934, when the process of code-making reached its culmination. The code authorities are classified as before¹⁴ in accordance with the degree of dependence upon the trade associations.

DEVELOPMENT OF CODE AUTHORITIES

| <i>Fields of industry</i> | <i>Number of Authorities</i> | | | | | TOTAL |
|--|------------------------------|------------|------------|-----------|----------|------------|
| | I | II | III | IV | V | |
| I. Agriculture and related industries . | | | 1 | 1 | | 2 |
| II. Mining and Quarrying . | 3 | 1 | 8 | 2 | | 14 |
| III. Manufacturing | 23 | 117 | 207 | 35 | 4 | 386 |
| IV. Construction | 1 | | 2 | 1 | | 4 |
| V. Transportation and other Public Utili- ties | | | 6 | | | 6 |
| VI. Trade | 5 | 1 | 21 | 4 | 1 | 32 |
| VII. Service | 2 | 1 | 16 | 6 | 1 | 26 |
| VIII. Finance | | | 6 | | | 6 |
| TOTAL | 34 | 120 | 267 | 49 | 6 | 476 |

This table is based upon computations made for me by the statistical staff of the Harvard University Committee on Research in the Social Sciences. For this aid I am happy to express my gratitude, but for the use of the results I alone, of course, am responsible.

These code authorities are law-making bodies for American business. Their members are the representatives of American businessmen. Businessmen who are the proprietors of unincorporated businesses may vote directly for their representatives either as members of trade associations or, where the constitution of the code authority provides for representatives of members of an

¹⁴ See *ante*, p. 66.

industry not belonging to a recognized trade association, as individuals. But stock-holders in business corporations have no vote. Their representatives are chosen by the managements of the corporations. In the major industries, where the great corporations flourish, such an arrangement must result in the further separation of the legal owners from the actual management of business affairs.

The development of special organs for the representation of capital in the modern state is a process which gains its character from the growing separation of corporate ownership and management. Self-government in industry, as promoted by the National Recovery Administration, has meant more power for the managers of industry. It has not meant more power for the owners of industry, unless they have been also its managers. The representation of capital tends to become in effect the representation of management. Ownership finds its best opportunity for the protection of its legitimate interests through the ordinary political channels, where its influence is greatest. The capitalist system, regarded as a system of business enterprise, tends to depend upon the control rather than the ownership of capital. If the special representation of capital, that is, of management, is to be a desirable institution in the modern state, it will be necessary to study the structure and processes of corporate management and determine their institutional value.

The corporate form of business management may be described in the language of traditional individualism as management by delegated agency. The stock-holders, who according to the individualist theory are the persons principally concerned in the management of an incorporated business, delegate their authority through

the directors of the corporation to the active managers, who function as their agents. The law which governs the relations between the executive officers of corporations, the directors, and the stock-holders recognizes many differences between such delegated agency and the ordinary relationship of principal and agent. The analogy should not be pressed too far. The distinction between the individualistic and the corporate forms of business administration must not be blurred by phrases.

To the early individualistic theorists the differences between management by delegated agency and the ordinary form of management by the personal proprietors of businesses seemed very important. Adam Smith's skepticism concerning the future of the business corporation has been noted. Though recourse to delegated agency increased with the development of the capitalist system, the early skepticism concerning its institutional value lingered in the minds of the prophets of modern capitalism. John Stuart Mill's *Principles of Political Economy*, first published in 1848, was long regarded as the most authentic textbook of individualist economics. In a famous chapter on the grounds and limits of the laissez-faire or non-interference principle, Mill discussed the exceptions to the doctrine that the government cannot manage the affairs of individuals as well as the individuals themselves. One exception was that of delegated agency. In this case, he declared, "the so-called private management is in point of fact hardly better to be entitled management by the persons interested than administration by a public officer." In short, corporate management seemed to an old-fashioned individualist to resemble government management rather than private management. The individualist theory of business enterprise rested upon the assumption that

business would be conducted in the main by means of directly-controlled rather than delegated agency.

Management by delegated agency, Mill was convinced, was not necessarily much inferior, if inferior at all, to management by the government itself. Government management, he conceded, was proverbially negligent, inefficient, and corrupt. But so likewise, he believed, was generally corporate management. The argument by means of which Mill disposes of the obvious objection to his view, though written more than eighty-five years ago, has a strikingly modern ring. "It may be objected," he wrote, "that the shareholders, in their collective character, exercise a certain control over the directors, and have almost always full power to remove them from office. Practically, however, the difficulty of exercising this power is found to be so great that it is hardly ever exercised except in cases of such flagrantly unskillful, or at least unsuccessful, management as would generally produce the ejection from office of managers appointed by the government." Against what he considered the very ineffectual security afforded by stock-holders' meetings, and by their individual inspections and investigations, might be placed, he believed, the greater publicity and more active discussion and criticism to be expected in free countries regarding affairs in which the government takes part. Whatever, if left to private enterprise, can only be done by means of business corporations, he concluded, will often be done as well, and sometimes better, as far as the actual work is concerned, by the government.

Mill's reasons for preferring the officers of private business corporations for the management of such business affairs as are commonly entrusted to delegated agency were of a different kind. He specified three:

(1) "the mischief of overloading the chief functionaries of government with demands upon their attention, and diverting them from duties which they alone can discharge to objects which can be sufficiently well attained without them"; (2) "the danger of unnecessarily swelling the direct power and direct influence of government, and multiplying occasions of collision between its agents and private citizens"; and (3) "the inexpediency of concentrating in a dominant bureaucracy all the skill and experience in the management of large interests, and all the power of organized action, existing in a community." These continue to be sound reasons against excessive concentration of authority in the hands of the Federal government. They constitute a cogent argument against undue political interference with the corporate management of business. But they do not alter the fundamental fact that management by delegated agency is essentially the same kind of management, whether vested in a government or in a business corporation. Management by delegated agency is bureaucratic management, whether governmental or corporate.

There has been much confusion of thought concerning the nature of modern bureaucracy. But fundamentally, as Professor C. J. Friedrich has pointed out, the important point is that the development of bureaucracy is not peculiar to the organization of government.¹⁵ Great enterprises require large staffs for their successful operation, whether operated by governmental bureaus or by business corporations. Administration on a large scale calls for a determinate distribution of offices or functions among the members of the organization. It

¹⁵ See Friedrich and Cole, *Responsible Bureaucracy*, p. 85. (Harvard University Press, 1932.)

calls also for a determinate distribution of the authority attached to these offices. It calls finally for determinate qualifications on the part of those individuals who are required for the performance of the duties of the offices and for the exercise of the attached authority. These are the essential characteristics of bureaucracy, governmental or corporate.¹⁶ There can be no doubt that the administration of modern large-scale corporate business is as much a kind of bureaucracy as the administration of modern government.

Bureaucracy is one of those technical terms which have been nearly spoiled for scientific use by the emotional connotations acquired through long employment in political controversy. Mr. James M. Beck's *Our Wonderland of Bureaucracy* affords an excellent illustration of such perversion of a valuable word. This book, as the able author frankly acknowledges in his introduction, "gives but one side of the picture of federal bureaucracy, and that, the least favorable." There is no attempt, Mr. Beck confesses, to set forth "the many admirable features of the federal bureaucracy." He does state his belief, however, that "while to-day it is too complex and needlessly large, yet in integrity it need yield to that of no other nation." He adds that "corruption in high places has been exceptionally rare, and the federal machine has been too harshly judged by the world." In these passages the author obviously means by bureaucracy the business organization of the government, the "machine" by which the public services are administered. This is doubtless the usual meaning of the term. But throughout the chapters which follow the introduction Mr. Beck uses bureaucracy as the equivalent of "socialistic experiments," to which he is strongly

¹⁶ *Ibid.*, p. 18.

opposed. The volume is not a dispassionate study of the administration of public business by the Federal government, but a polemic directed against increasing governmental participation in corporate business affairs.

Other writers use the word to denote a system of government the control of which is so completely in the hands of administrative officials that their power jeopardizes the liberty of ordinary citizens. In this sense of the term bureaucracy is often contrasted with representative government, as if they were conflicting and irreconcilable forms of government. If for bureaucracy, as thus used, be substituted the more usual contemporary expression, dictatorship, which must rely on a bureaucracy for any solid achievement, the meaning becomes clearer. John Stuart Mill's classic treatise on *Representative Government* seems to have done much to popularize this usage of the term. Mill conceded that a bureaucratic or dictatorial government has in some important respects greatly the advantage over representative government. It "accumulates experience," and "makes provision for appropriate practical knowledge in those who have the actual conduct of public affairs." But such a bureaucracy, he believed, is apt to become the victim of "routine." It is unfavorable, in his opinion, to individual enterprise and "energy of mind." If forced to choose between the two forms of government, Mill would have unhesitatingly chosen a representative government, operating by means of a spoils system. But he did not believe that such a choice was necessary. Bureaucracy and representative government were not wholly incompatible with one another, he suggested, and each needed to be strengthened by the addition of the good qualities of the other. "Government by trained officials can not do for a country the things which can be

done by a free government; but it might be supposed capable of doing some things which free government of itself can not do. . . . Freedom can not produce its best effects, and often breaks down altogether, unless means can be found of combining it with trained and skillful administration."

Such discussions show rare insight into the nature of government, but they do not settle the meaning of bureaucracy. In view of the different meanings attached to the term, it is not surprising that some of the most competent writers on public administration prefer not to use the word at all. In Leonard D. White's *Trends in Public Administration*, and in Carroll H. Woody's *The Growth of the Federal Government, 1915-1932*, both prepared under the direction of President Hoover's Research Committee on Social Trends, its use is studiously avoided. But it is inconvenient to surrender a valuable word to those who wish to make it merely a term of disparagement and condemnation. Public business administration and corporate business administration have important common features for which there is no other available designation than bureaucracy.

It is necessary, however, to distinguish between the essential and the accidental characteristics of bureaucratic administration. The universal complaint about bureaucracy stresses its propensity for "red tape," that is, excessive addiction to fixed regulations and perfunctory routine. The stock illustration of "red tape" is the case of the respectable man in a strange city who tries in vain to identify himself at the local post-office in order to cash a postal money order. Sound bureaucratic practice makes identification in such cases difficult, though discriminating postal clerks may sometimes waive the letter of the regulations to placate an ob-

viously honest citizen without adequate means of legal identification. The same difficulty arises in the similar case where the honest citizen in a strange city is trying to cash a telegraphic money order. Bureaucracy in telegraph companies is less a byword than bureaucracy in the postal service, but the danger of excessive addiction to routine exists in the corporate as well as in the governmental administration. Sound bureaucratic methods of identification are illustrated by the passport system of the Department of State, by the registration provisions in many State election laws, and by the systems of travelers' checks and letters of credit elaborated by commercial banks. There is no more cause for condemning the practices of governmental bureaucracy than of corporate bureaucracy, if reasonable, and no less cause, if unreasonable. The reasonableness of the practice depends, of course, upon the nature of the case. Excessive addiction to routine is accidental and can be relieved by appropriate measures. Fixed regulations of some sort, however, are essential characteristics of bureaucracy, whether governmental or corporate. The improvement of bureaucratic efficiency is a joint adventure for both government and business.

Increasing recognition of the importance of efficient bureaucracy is one of the manifest trends in both public and corporate business administration. Here, as U. S. Civil Service Commissioner White has pointed out, government has probably lagged behind the most progressive business corporations.¹⁷ Gigantic industrial organizations such as the American Telephone and Telegraph Company, the General Motors Corporation, and the United States Steel Corporation have contributed greatly in certain directions to the technical improve-

¹⁷ See his *Trends in Public Administration*, pp. 6-7.

ment of bureaucracy. Governments can learn much from their experience. A growing disposition to learn from the experience of the best-managed corporations is reflected in the establishment of proprietary corporations as agencies of the Federal and State governments. The Federal government established half a dozen of such corporations during the World War and at the present time possesses at least a score of these agencies. In certain respects, however, the governmental bureaucracy is already in a more advanced stage of development than the great corporate bureaucracies. Even the largest business corporations have something to learn from the experience of the Federal government, and most of the smaller corporations are far behind the Federal government and the better-managed state and city governments in certain bureaucratic essentials.

The establishment of "self-government in industry" under the auspices of the National Recovery Administration means more bureaucracy in business as well as in government. The value of this new institution depends in part upon the ability of business management to bring about progressive improvement in bureaucratic efficiency. Yet there are some improvements in the administration of business which private business managers are apparently incapable of bringing about by themselves alone. This incapacity is most apparent in dealing with such problems as technological and seasonal unemployment, and temporary or permanent invalidity resulting from industrial accidents, occupational diseases, and old age. These are evils which may be mitigated by well-designed measures of social insurance, but experience has shown that most employers in competitive industry can do little to make such measures effective without governmental aid. Uniform arrange-

ments, at least for all establishments in the same industry, are necessary, if some employers are not to gain an unfair advantage over others. The organization of industries for the purpose of joint action by their members in the administration of social insurance measures is clearly one of the tasks which cannot be evaded by an enlightened government in the modern industrial state. The code authorities, if preserved, should be capable of valuable service as agencies for the administration of a general program of social insurance. But it is to the trade associations and industrial institutes that the managements of business corporations should ordinarily look for the promotion of bureaucratic efficiency by methods which are beyond the power of the corporate business managers themselves.

The institutional value of "self-government in industry" depends also upon the efficacy of the instruments and means for making bureaucracy responsible. The problem of securing a responsible business bureaucracy was acute before the adoption of the National Industrial Recovery Act, but that bold experiment in adapting the institutions of modern capitalism to the requirements of the class-conscious state makes the solution of the problem urgent. Self-government in industry without effective control means the transformation of bureaucratically managed competitive industry into oppressive monopoly. The first step toward a solution of the problem calls for an answer to the question, to whom shall business bureaucracy be made responsible? Since it is manifestly impracticable to make it responsible to the nominal owners of capitalistic industry, the alternatives seem to be responsibility to its own employees or to the general public.

The former alternative has been warmly advocated

by syndicalists and other radical protagonists of the special interests of labor. It is a proposal, however, which must be rejected by believers in the superiority of a government dominated by the middle class over other forms of class rule in the modern state. The enforcement of responsibility by the corporate management to the corporate employees does not mean a responsible bureaucracy. It means either a kind of proletarian dictatorship or a combination of capital and labor against the rest of the community. In the former case, the argument can be safely left to the advocates of other forms of proletarian dictatorship. The Communists may be no more hospitable than the Syndicalists to schemes for stabilizing middle-class states by introducing constitutional government into industry, but they are destructive critics of industrial syndicalism. In the latter case, labor might share in the monopolistic gains of capital, but the problem of responsible bureaucracy would remain as before. In neither case could there be any security for the reconciliation of self-government in industry with self-government for the whole body of people.

The enforcement of responsibility to the public on the part of business bureaucracy is a more promising enterprise. There are various ways of enforcing such a responsibility. The first is direct government ownership of the business whose management is to become responsible to the public. This method of enforcement converts the business bureaucracy into a government bureaucracy, and substitutes for the problem of making a business bureaucracy responsible that of making a government bureaucracy responsible. In other words, it does not solve the problem, but merely gives it a new form. At the same time it sacrifices the advantages of

private enterprise in that particular business. In certain cases dissatisfaction with the results of private enterprise has made this method of control seem desirable. Under the New Deal government bureaucracy has been substituted for business bureaucracy, either wholly or in part, in several important businesses, notably in the management of the dollar and the production of hydro-electric power. But these developments involve no new relationship between government and business. They merely extend the range of an old relationship. The Post Office has long possessed a monopoly of the business of carrying the mails, and the management of the country's gold and silver reserves by the Federal government or the production of hydro-electric power on a great scale, though shocking innovations to minds with settled habits of thought, adds nothing to the idea of responsible bureaucracy.

A second method of enforcing the responsibility of business bureaucracy to the public is much like the first in effect, though different in form. This is the method employed when the government organizes a business corporation on its own account, or acquires a majority of the stock of an existing corporation, and thus puts itself into the position of dominant stock-holder. In form such government-owned and directed corporations resemble private corporations, and may be organized either under a special Act of Congress or under the laws of the District of Columbia or one of the states. In effect they enable the government to exercise a control over the management of the business, which, as has been shown, is impracticable for a majority of the stock-holders in great corporations. The first government-owned business corporation was the Panama Railroad Company, a very successful business enterprise after as well

as before the purchase of its stock by the government of the United States.¹⁸ This method of controlling business was freely employed by the Wilson Administration during the World War, was utilized also by subsequent Republican administrations, especially the Hoover Administration, and has become a favorite instrument for the business operations of the Roosevelt Administration. Regarded as an agency of government enterprise, it possesses some obvious advantages over the ordinary form of bureaucratic organization employed by government and some less obvious disadvantages. Regarded as a method for the control of private business bureaucracy, it possesses possibilities which have not yet been explored. For instance, the purchase of preferred stock in national banks by the Reconstruction Finance Corporation for the account of the Federal government opens the way for further public control of bank management, but the Roosevelt Administration has appeared reluctant to take much advantage of this opportunity. Government stock-ownership appears to be an efficient device for the control of monopolistic business managements, but less suited to the enforcement of public responsibility in the management of business where the stimulus of competition is desired.

A third method of securing greater responsibility to the public on the part of business bureaucracy is that which results from the use of the licensing power. By means of this power the government enables the holder of a license to engage in a business upon conditions prescribed by itself, reserving the right to put an end to the engagement at discretion. The amount of discretion retained by the government may vary widely in

¹⁸ See Marshall E. Dimock, *Government-operated Enterprises in the Panama Canal Zone*. (University of Chicago Press, 1934.)

different cases, but the effect is to give the government a more or less arbitrary authority over the initiation and termination of the activity as well as over the methods of operation. The licensing power is one of the oldest forms of government regulation and control. The chief novelty in its use under the New Deal, if it be a novelty, consists in the wide range of business activities over which the power may be exercised and the great extent of the discretionary authority which has been conferred upon officers of the Administration. The executive order of April 20, 1933, authorizing the Secretary of the Treasury "in his discretion and subject to such regulations as he may prescribe" to license exporters of gold coin and bullion, illustrates the possibilities of this method of controlling business bureaucracy. Another important instance of the use of the licensing power to enforce greater responsibility to the public in the conduct of so-called private business is furnished by the Agricultural Adjustment Act of May 12, 1933. This Act authorized the Secretary of the Treasury to issue licenses permitting processors to engage in handling agricultural commodities, subject to such terms as might be necessary to eliminate unfair practices or charges tending to prevent the restoration of normal conditions in the marketing of such commodities. To what lengths the Secretary may go in regulating an industry by means of such licenses is shown by the form of license issued to members of the distilled spirits industry. By superimposing the Federal Alcohol Control Administration upon the code authority for that industry, the Roosevelt Administration secured a degree of control over the manufacture and distribution of hard liquors which astonished some of the supporters of the Twenty-first Amendment.

The National Industrial Recovery Act conferred a

similar licensing power upon the President in order to make effective the codes of fair competition in the non-agricultural industries. In this Act it is provided that, if deemed necessary, no person shall engage in any specified business without a license "issued pursuant to such regulations as the President may prescribe." The exercise of this power was restricted to the period of a year after the enactment of the law. During this period orders of the President suspending or revoking a license were to be final, if in accordance with law, and heavy penalties were provided for their violation. The difficulty with such methods of control is that they are too drastic. A method which is well suited to the control of individuals and small business units, such as taxi-drivers and retail liquor dealers, becomes unmanageable when applied to great business bureaucracies, such as the General Motors Corporation or the United States Steel Corporation. These bureaucracies, if contumacious, cannot be dismissed without provision for competent successors to carry on the business, and adequate substitutes cannot easily be improvised by the government. Such bureaucracies must be treated as permanent institutions, and their responsibility to the public must be enforced by methods which do not impair their vitality. It is not surprising that the Roosevelt Administration permitted the licensing power conferred by the N. I. R. A. to expire without ever putting it to use.

The fourth method of control is that which depends upon the issuance of mandatory orders in particular cases directly by the chief executive or other suitable administrative agency. The possibilities of this method are best illustrated by the regulation of railroad rates and service by the Interstate Commerce Commission. Some of its limitations appear in the results of the

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Federal Trade Commission's efforts to prevent unfair competition by orders to cease and desist from objectionable practices. The appointment of the Federal Coördinator of Transportation in 1933 attested the general approval of the method as applied to the regulation of the railroad bureaucracies. The arrangement of trade practice conferences under the auspices of the Federal Trade Commission, in order to secure voluntary agreement upon rules of fair competition in ordinary competitive business, revealed the growing dissatisfaction with the issuance of mandatory orders in such cases. Under the appropriate circumstances the method of enforcing responsibility to the public on the part of business bureaucracies through executive orders and decrees is convenient and effective, but a proper regard for the liberties of the individual requires greater care in the use of this method than has been generally observed. The recent report¹⁹ of the American Bar Association's Special Committee on Administrative Law shows clearly the need for the improvement of the administrative machinery by means of which regulatory orders are framed and executed.

There remains the method of control established by the marketing agreements and codes of fair competition which the Roosevelt Administration has fostered under the Agricultural Adjustment Act and the National Industrial Recovery Act. These agreements and codes have brought into existence a new relationship between government and organized business. The parties to the agreements and the members of the codes have formed combinations, which under the Old Deal would have been regarded as in restraint of trade. This is most

¹⁹ See *Proceedings of the American Bar Association for 1934*, pp. 200-225.

clearly evident in the case of the marketing agreements arranged under the provisions of the Agricultural Adjustment Act. They are expressly designed to restrict production and raise prices. The government not only becomes a kind of partner in the agreement, but also gives its partners a privileged status by exempting them from the anti-trust laws. In the case of the codes of fair competition, framed under the authority of the N. I. R. A., the purpose to limit production and raise prices is less clearly expressed. But it is implied in the spirit of the Act and consummated in the same way as under the A. A. A. by the suspension of the anti-trust laws for the period of the emergency.

These combinations of government and organized business in restraint of trade, though exempted from the anti-trust laws, may not become monopolies. The prohibition against monopoly under the A. A. A. and N. I. R. A. has caused confusion and controversy, but its intent seems clear. If a government-fostered combination in restraint of trade is not to become an odious monopoly, it must avoid the objectionable attributes of monopoly. For instance, it must not raise prices beyond a reasonable level. For the agricultural industries the A. A. A. prescribes a standard of reasonable prices, namely, those prices which will secure for the farmer the equivalent of the purchasing power of his basic crops at a stipulated past period. For other industries the N. I. R. A. prescribes no definite standard, but a fair inference from the language of the Act is that the prices of industrial products must not exceed fair competitive prices. The problem of preventing monopoly, therefore, resolves itself into a problem of maintaining fair competition. Fair competition may be maintained by three different methods: (1) by licensing competitors

who compete fairly and excluding others from the industry; (2) by authorizing an agency such as the Federal Trade Commission to require competitors to cease and desist from unfair practices; or (3) by appointing public officers to the governing boards of the government-sponsored combinations with a view to stopping unfair competition before it begins. The last of these three is the method which the Roosevelt Administration has initiated and upon which it appears to rely chiefly for the necessary protection against monopoly.

It is a method which entitles the Administration to speak of this aspect of the New Deal as a partnership between government and business. The administration members of the code authorities form the substance of the bond between the partners. The serviceability of the partnership depends largely upon the practical capacity of the administration members of the code authorities to protect the public against injurious conspiracies by the representatives of business. If the marketing agreements and codes of fair competition be regarded merely as temporary expedients to promote recovery, the new relationship between government and organized business becomes merely a transitory phenomenon of the depression. As such it would be an interesting experiment, but hardly important enough to justify extraordinary attention amidst the throng of expedients to which the Administration has resorted. If the fortunes of this partnership receive extraordinary attention, as they have, a partial explanation must be a widespread belief that the new relationship may be permanent. Believing, as many do, that the partnership will survive the depression, they are bound to regard the experiment as much more than an emergency measure of relief and recovery. It becomes a great adventure in government.

In the rush to frame codes of fair competition for as many industries as possible in the shortest space of time, the problem of organizing the code authorities so as to secure adequate protection for the public interests was unduly neglected. The practice was to appoint at least one representative of the N. R. A. on each code authority with a voice, but not a vote, in its proceedings. The code authorities for all the major industries contain three administration members, one of whom was usually the Deputy Administrator or other N. R. A. official who had been in charge of framing the code. The other administration members of the code authorities were likely to be corporation executives on leave of absence from their businesses or young professional men without much experience in business or special training for their important work. Too often the administration members seemed to have insufficient attachment to the public service or insufficient detachment from their private businesses. They were not provided with clear instructions or with adequate facilities for the efficient exercise of their functions. Indeed there seemed to be no settled policy on the part of the N. R. A. concerning the proper functions of administration members of code authorities.

The public interest in a fair administration of the codes cannot be adequately protected under such conditions. It is desirable that a special corps of trained experts be recruited to form a permanent panel from which selections can be made for the representation of the public on the various code authorities. These men should give their full time to the task of controlling business bureaucracy and should have the aid of such research and statistical facilities as may be necessary to supply them with proper information concerning the

industries to which they are appointed and the operation of the codes which they help to administer. As long as the public organization of industry under suspension of the anti-trust laws remains a great adventure in government, it is of the highest importance that the public representatives in the government of industry possess the best possible qualifications for their task. Upon their competence and devotion to duty depends in no small measure the success of the adventure. They should form a part of the Federal professional and scientific service under the civil service system, and should enjoy the privileges and immunities which are proper for such civil servants as well as submit to the necessary obligations. Unless the public can have confidence in the administration members of the code authorities, the new partnership between government and organized business is certain to fail.

Competent and reliable administration members of the code authorities should make the partnership between government and business one of the most serviceable methods of holding the bureaucracy of business to a proper responsibility to the public. The method of direct government ownership of business is useful within narrow limits, but it cannot be suddenly and widely employed without destroying the balance between capital and labor and upsetting the equilibrium of the middle-class state. The method of indirect government ownership through the control of business corporations by means of stock-ownership is more businesslike than the first method, and lends itself to wider use, especially in industries where conditions favorable to monopoly prevail, but it also cannot be extensively used in the general field of competitive industry without bringing the same consequences as direct

government ownership. The method of control by the exercise of the licensing power is well-adapted to industries in which individual enterprise continues to flourish, but is ill-suited to the great capitalistic industries in which business bureaucracy is most strongly entrenched. The method of control by executive orders and decrees is too convenient to be abandoned in an age when the government must necessarily be heavily committed to the more stringent regulation of corporate enterprise, but excessive reliance upon restrictive orders and decrees inevitably impairs the vigor of business management and reduces the value of the system of corporate enterprise. If there is not to be an undue concentration of authority in a centralized political bureaucracy, it is important to make greater use of the method of coöperation between political and industrial bureaucracy under the forms of self-government in industry. Partnership between government and organized business, which implies also a corresponding partnership between government and organized labor, seems to be the most promising of all methods for securing greater responsibility to the public on the part of the bureaucracy of business without unduly jeopardizing the efficiency of corporate management.

The problem of stabilizing the modern class-conscious state is too complex for solution by the low-powered governments which have come down from the age of rugged individualism. It is necessary to develop a high-powered political system adequate to cope with the new responsibilities which modern governments must assume. This means the development of a body of public business administrators which can hold its own in its relations with organized corporate business manage-

ment and organized labor. It means the creation of a system of public business administration which can command the services of men no less competent than those engaged in administering corporate business. It means, furthermore, the creation of a system of responsible public business administration which can command the confidence of the public. Doubtless the gradual development of a sense of greater responsibility to the public on the part of corporate business administrators will ease somewhat the strain on the administrative services in the government of a modern class-conscious state. Yet there can be no satisfactory substitute for a body of public businessmen, commanding the confidence of the public, and capable of contending on equal terms with the corporate business bureaucracy. The creation of a responsible public business administrative system, and its endowment with powers commensurate with its responsibilities, are leading tasks of middle-class statesmanship in further developing the institutions of the modern state in a class-conscious age. The due performance of these tasks would afford convincing evidence that a government based upon the supremacy of the middle class is the kind which is most suitable for a planned democracy.

ORGANIZING FOR NATIONAL PLANNING

GOVERNMENT in a planned democracy must be not only stable but also progressive. Indeed, it cannot remain stable unless it is progressive. The prerequisite of planned democracy is a government which can be continuously adapted to the changing circumstances of a scientific and experimental age. Successful adaptation involves the cultivation of the experimental attitude by the practitioners of the governmental art. Politicians must become political scientists, or political scientists must become politicians, or somehow the two must meet. It is a strange illusion that the method of science, the systematic and purposeful study of structures and processes, can flourish in every field of human interest and action except politics. The main question is, what kind of government, what system of political structures and processes, will be most favorable to practitioners of the governmental art, who are hospitable to the experimental attitude.

It is certain that modern democratic politicians will experiment at least casually with the system of government. They will experiment, because the nature of the modern state compels experimentation. Some, like President Hoover, yield reluctantly to the constraint of circumstances; others, like President Roosevelt, believ-

ing in the experimental attitude, rejoice at every suitable opportunity to introduce it into the governmental art. Even if the disposition to experiment should fail, the circumstances would continue to constrain. Scientists and inventors are the harbingers of promoters and organizers and managers. The advance of science paves the way for the technological changes which in turn alter the habits of men, and the institutions in which those habits are embodied reflect the march of the times. The disclosure of new facts about nature and the assertion of greater authority over the material world lead to the invention of new forms of business organization, the readjustment of the relations between capital and management, and the incitement of labor to fresh struggles against the rulers of industry. When the institutions which represent the special interests of capital or labor are strengthened, or when the relations between investors and corporation executives are changed, the government of the state cannot escape the effects of the shifting of power. If politicians do not experiment, business leaders and labor organizers will, and the consequences will be felt in the institutions of government as well as in the institutions of business. For government is not a scheme upon paper, but an aspect of the way of life.

Institutions are known by the purposes which they serve, and political institutions should serve purposes which are recognized as public by the people of the state. Governments which endure for considerable periods of time presumably have been well-suited to the conditions under which they began to flourish. As conditions change, it is desirable that durable institutions change also, lest they cease eventually to be serviceable and must be destroyed. Neotechnic industry is capable of

furnishing a richer life for the masses of the people than they have ever enjoyed under the paleotechnic industry of the age that is passing away. Under these circumstances the masses of the people will not be satisfied with institutions which fail to secure for them the blessings they may reasonably expect. Politicians, fitted for leadership in a planned democracy, will prefer to build the institutions of the new age, while still living under those of the old, rather than postpone the new building operations until the existing institutions collapse.

It is evident that the kind of government best suited for a planned democracy is that which contains within itself the means of continuous adaptation to the changing circumstances of the people. It is not enough for such a government that experimentation be left to the casual impulses of democratic politicians, whether spontaneous believers in the experimental attitude or reluctant converts under the pressure of circumstances. Democratic politicians labor always under the constraint of impending elections and must lay their plans for the most part with a view to the exigencies of the immediate future. Successful political experimentation must be planned with a view to the conditions that may be expected in longer periods of time. It cannot be merely casual, but must be systematic and purposeful. Such experimentation calls for the deliberate organization of planning. The kind of government which can satisfy the requirement that it contain within itself the means of continuous adaptation to the changing circumstances of the people must contain a competent and durable planning organization.

There are two different kinds of planning which must be provided for in any adequate organization of na-

tional planning in the United States. The first may be best described as political planning; the second, as administrative planning.

Political planning in a democracy is concerned primarily with devising ways and means for generating political power from the energy which emanates from the will of the people, or from the wills of the various sections, classes, and interest-groups into which the body politic is divided. The principal instrument of the political planners in American national politics has always been the political party, and national political planning has been the special function of those statesmen who have been great party leaders. Heretofore American statesmanship has consisted largely in finding formulæ by means of which the major interests in different sections of the country could be brought together in support of a common national policy. Hereafter, on account of the growing preponderance of class interests over sectional interests, statesmanship will consist more largely in finding formulæ by means of which the interests of different classes of the people can be brought together in support of a common national policy. Hereafter as heretofore, the major task of political planning under the Constitution will be the combination of sectional and class interests in parties capable of holding the American people together and operating their government.

The principal problem of contemporary political planning is to find the type of political party best suited to the needs of a people increasingly conscious of the growth of economic classes and of conflicting class interests. The most promising solution of this problem is the formation of parties based upon the predominance of the middle class and devoted particularly to the pro-

motion of middle-class interests. The true function of middle-class parties is to mitigate the violence of the struggle between the upper and lower classes and to assert the supremacy of community interests over class interests of any kind. The middle class is forced to mitigate the violence of the class struggle in order to protect its own interest, which is that of the mean between the extremes. To do otherwise would involve a confession of the inferiority of its claim to the allegiance of its own members. It is forced to assert the supremacy of community interests over class interests of every kind in order to justify the promotion of its own interest. To do otherwise would involve the abandonment of its best argument, namely, that its special class interests come nearer to coinciding with the general interests of the whole community than those of any other class. Such in brief is the case for the ascendancy of the middle class in a class-conscious state.

Satisfactory performance of the functions of middle-class parties in a class-conscious state depends upon the choice of the right methods for making their programs. These methods are three in number, but all are based upon the same principle of action. The first method consists in combining the characteristics of a lower-class and an upper-class program. By maintaining a balance between the interests of the upper and lower classes a program serves best the interests of the middle class and of the community as a whole. The second method consists in taking something from each of the two extremes to form a kind of mean between them. The greater the difficulty of determining to which class the resulting mixture of measures is more favorable, the more likely it is that the middle class is the chief beneficiary. The third method of constructing a middle-class

program consists in taking a middle course between the positions of the upper and lower classes. Such methods of program-making may not seem heroic, but they serve best the interests of the whole body of people who compose the state. They may not appeal to politicians who seek power by subservience to the special interests of the rich or the poor. Nevertheless, they are the methods of political science. They will be deemed most desirable by those who put first the interests of the whole body of people. But are they practicable? That is the question to which the people of a class-conscious age must desire an answer.

The difficulties in making and administering a middle-class program are abundantly illustrated by the Roosevelt Administration's experiments in pursuance of its promised "New Deal." To be sure, the "New Deal" was not avowedly brought forward as a deliberate attempt to favor the interests of the middle class and to strengthen the position of that class in national politics. On the contrary, the Roosevelt Administration, like all its predecessors which have held power at Washington, professes to act in the public interest and to desire the promotion of the general welfare. Some of its leading measures doubtless cannot easily be related to the special interests of any particular class. They fall rather into the category of sectional than of class politics. But several of its most important measures afford striking illustrations of middle-class politics.

Consider, for instance, the National Industrial Recovery Act. This Act is clearly a product of the first method of middle-class program-making. It deliberately combined the features of a capitalistic program with those of a program in the interest of labor. In the begin-

ning the leading representatives of both capital and labor seemed pleased at the outlook under the N. I. R. A. Writing in the regular weekly letter of the Chamber of Commerce of the United States, May 29, 1933, President Henry I. Harriman of that organization said: "The National Industrial Recovery Act, which can be made into a new charter for business, is now under consideration by Congress. In the successive stages through which the bill has gone, the Chamber of Commerce of the United States has actively supported those principles for which the Chamber has repeatedly declared. . . . These principles are the most important part of the bill as it stands. . . ." The principles which Mr. Harriman deemed so important to business remained in the Act when finally adopted, but along with them were other principles, deemed equally important by labor, to which employers as a class were strongly opposed. The provisions of section 7, recognizing the right of the workers to organize and bargain collectively without interference by their employers, attested a triumph in the American Federation of Labor's long fight for a Federal "charter of labor" no less impressive than that of the Chamber of Commerce in its fight for the "charter for business." After the signing of the N. I. R. A., the *American Federationist*, official organ of the American Federation of Labor, was no less enthusiastic than the organ of the Chamber of Commerce in its praise of the new measure. Each side could rejoice at a great victory. Each had ground for viewing with some alarm the success of the other. The measure appeared to strike a skillful balance between the conflicting forces of capital and labor.

The operation of the N. I. R. A. has shown how

delicate may be the equilibrium established by a carefully planned middle-class program. The government-sponsored systems of representation for capital and for labor, provided by the Act, are fine instruments which employers and workers will not learn to use effectively without practice. During the process of learning there is inevitably much bungling on both sides. This raises doubts concerning the wisdom of putting such tools in the hands of unskilled persons. It is apparent that, if either capital or labor masters the new tool before the other, it will gain disproportionately by the venture, and the planned equilibrium will then not be attained. Meanwhile, there is much uneasy suspicion on the part of both capital and labor that the manifest gains of each under the Act may have been purchased at the cost of excessive concessions to the other. Such suspicions, if confirmed, disturb the balance between the two classes and tend to destroy the social equilibrium which is the real objective of middle-class policy.

Moreover, there is much dissension between conflicting interests on each side of the scale, which further complicates the computation of gains and losses. On the capitalistic side there is the conflict between large and small employers. Small employers accuse large employers of seeking to make the codes and code authorities instruments of monopoly, and large employers accuse small employers of cut-throat competition in defiance of the spirit of the Act. This conflict produces bickering over the collection of funds for the administration of codes and occasionally breaks out in open struggles for control of code authorities. On the side of labor, the conflict between the company unions and the independent unions seems to spring in part from the rivalry between skilled and unskilled workers. In

most industries the skilled are outnumbered by the unskilled and could easily be outvoted and oppressed in company or industrial unions, where workers of all grades have an equal voice. Under the trade or craft union system of labor organization the skilled workers possess their own organizations and cannot be oppressed by the superior numbers of the unskilled. Many of the workers in the skilled trades have long thought of themselves as members of the middle class rather than of the proletariat and distrust any system of organization which threatens their autonomy. Such dissensions, however, though they too may tend to disturb the balance between the upper and lower classes, are more likely, by dividing these classes against themselves, to weaken both and thus strengthen the position of the middle class.

It is impossible to discover in any short period of time the social and political effects of so complex a measure as the N. I. R. A. Those which tend to upset the balance between the upper and lower classes and defeat the major purpose of middle-class policy are the more obvious. But there is no convincing evidence that they are the more important. There may be dismay in the ranks of both capital and labor at some of the early consequences of the Act. Certainly organized labor has been dismayed at the sensational progress of the company unions, and organized capital must have been shocked by some of the manifestations of "rugged individualism." But each side may continue to cherish the hope that a prudent administration of the Act will eventually secure a more satisfactory share of its benefits. Meanwhile, the lack of solidarity on each side, though creating fresh difficulties for the N. R. A., tends to

improve the position of the middle class. With skillful management by the representatives of the Administration the latter effect may well prove to be the more important.

Experience with the N. I. R. A. has clearly shown the importance of a competent body of technical experts and public business administrators for executing a middle-class program in American politics. In the first place, the advice of the technicians and administrators is indispensable for the intelligent and efficient execution of the program. The politician must take the responsibility for sponsoring policies which can justify his possession of political power. In a planned democracy these policies must reflect the progress of the sciences and the changing conditions of the times. They must be founded therefore upon the collaboration of technicians and administrators. Secondly, the assistance of a body of technicians and administrators is invaluable in maintaining the balance between the upper and lower classes which the practitioner of middle-class politics seeks to establish. Properly organized and directed, such a body can stand against an undue preference for upper or lower-class interests, if the special representatives of either class fail to supply the appropriate check upon the other. It can help to stabilize the equilibrium of classes, even if the balance between them is not exactly struck by the measures of the program. In short, an impartial body of competent technicians and administrators is certain to be a favorite instrument of middle-class politics in a class-conscious age. The kind of advice and assistance to politicians which only such a body can render satisfactorily is what is meant by administrative, as distinct from political, planning.

Organizing for national planning means bringing the

most intelligent technicians and the most efficient administrators into contact with the most popular politicians. A sound system of national planning will enable politicians, technicians, and administrators to work well together in the conduct of public affairs. But political and administrative planning serve different ends. The function of political planning is to arrange for the conversion of the will of the people into political power. It must necessarily be reserved primarily for the politicians. Administrative planning is not concerned with the organization of will but with the organization of thought. It is not enough that the power of a government, designed to meet the demands of the modern state, be derived from the consent of the governed. Such a government may be strong, as long as that consent is obtainable, but it will not necessarily be wise. In order that a government may be wise as well as strong, it must command the services of the most intelligent and efficient as well as the most popular men in the state. The principal agency of administrative planning must be a body of technicians and public business administrators. Administrative planning in the modern industrial state, however, is a complex enterprise. It must include several specific types of planning, if government in a class-conscious age is to be progressive as well as stable. The most important of these is economic planning. The provision of suitable arrangements for economic planning is the principal immediate task in organizing for national planning.

There has been much discussion of economic planning since the end of the late "new era" of speculative prosperity in 1929, and much difference of opinion concerning the meaning of the term. In fact, many different arrangements may be described as economic plan-

ning of a sort, but the important systems of economic planning seem to be no more than two in number. The differences between them have been clearly described by Walter Lippmann.¹ One he calls a system of "directed economy" or "absolute collectivism"; the other, a system of "compensated economy" or "free collectivism." The former is best represented by the Russian kind of planning, embodied in the five-year plans of the State Planning Commission. This kind of planning calls for a highly centralized form of planning agency, a highly integrated administrative system, the strict regimentation of the workers, and a rigidly disciplined body of consumers. The other kind of planning leaves more room for individual initiative and enterprise. But, as Lippmann says, "if individuals are to continue to decide when they will buy and sell, spend and save, borrow and lend, expand and contract their enterprises, some kind of compensatory mechanism to redress their liability to error must be set up by public authority." A system of planning by means of which the "public authority" can check the errors in the independent judgments of the multitude of investors, speculators, promoters, labor leaders, managers, executives, bankers, and others, whose combined efforts direct the process of production, and can also arrange to keep the process in balance, seems to be the proper next objective in the adaptation of American government to the requirements of a planned democracy.

It was planning of this kind that President Roosevelt apparently had in mind when he sounded the keynote of the New Deal in his radio address of May 7, 1933, to the American people. "It is wholly wrong," he declared, "to call the measures that we have taken government

¹ See his *The Method of Freedom*, Part II. (New York, 1934.)

control of farming, control of industry, and control of transportation. It is rather a partnership between government and farming and industry and transportation, not partnership in profits, for profits would still go to the citizens, but rather a partnership in planning and a partnership to see that the plans are carried out." A year after his keynote address the President, in setting up the Industrial Emergency Committee to survey the operations of the N. R. A. and report on the further development of the program of industrial recovery and reconstruction, stated that his purpose was to "disclose a formula for permanent industrial planning, particularly as that planning involves the knitting together of all industry into a national economy." The Presidential statement shows clearly the kind of planning he then had in mind. The Industrial Emergency Committee was not to prepare a plan for the actual direction and control of industry. It was rather to consider how much regulation of industry may be necessary in order to secure greater stability in industrial operations, avoid for the future the calamitous succession of unsound booms and destructive depressions, and assure relief to the victims of such depressions as might be unavoidable. This surely looks toward what Lippmann happily calls a system of "compensated economy" or "free collectivism."

A planning organization for a system of "compensated economy" need not be as elaborate and intricate as would be required for a system of "directed economy." A favorite proposal of the American advocates of economic planning has been the creation of a national economic council. Hearings on a bill to establish such a council were held by a sub-committee

of the Senate Committee on Manufactures in 1931.² There was no agreement among the prominent businessmen and economists, who testified before the sub-committee, concerning either the kind of planning needed or the proper organization of a planning agency. It appeared that the idea of a national economic council covered two different types of institutions. One would consist of a small body of economists and other professional planners, who would be appointed by and responsible to the government. It would be assigned the task of gathering information about industrial and economic conditions, and notifying the government and the public of its findings and recommendations. Its members would be recruited from the ranks of those technically qualified for such employment. The other would consist of a much larger body of businessmen, farmers, and workers, appointed by or on behalf of the various organized special interests of the country and responsible to those interests for the representation of their several points of view. The purpose of such a council would be to enable the government to keep in closer touch with the leading economic interests of the country than is practicable through the ordinary contacts of public officers with lobbyists and other representatives of special interests at the seat of government. The evidence before the sub-committee showed that both types of organization were desirable, but was not so definite or convincing as to lead to any action by Congress at that time.

Both types of planning agency, which were envisaged by the advocates of economic planning in 1931, have

² See *Establishment of National Economic Council*, Hearings on Senate Bill No. 6215, 71st Congress, Oct. 22 to Dec. 19, 1931, printed for the use of the Committee on Manufactures.

come into existence under the N. R. A. Its headquarters staff contains a Research and Planning Division, which represents the most important experiment looking towards an effective planning agency of the first type yet made in Washington. But it is manifestly very imperfect. The members of the code authorities, taken all together, constitute an informal council of the second type. In March, 1934, the N. R. A. held a general conference at Washington of all the code authority members for the purpose of discussing the working of the codes and the framing of policies for future code administration. Several thousand businessmen attended its sessions. This was the nearest approach to a parliament of industry ever held in the United States.

The soundest method of constructing an economic planning system for the modern industrial state is to build upon the existing foundations. Let the government assemble its own planning agency from the economists, statisticians, and other qualified technicians whom it brings to Washington for service in the various administrative organizations which employ such persons. The emergency organizations under the direction of Donald R. Richberg, the National Emergency Council and the Industrial Emergency Committee, mark the beginnings of a promising development on the part of the government. Let industry develop a national economic council, which shall be fairly representative of the leading interests of the country, by utilizing the agencies at its disposal. The material for such a national economic council is available; all that is needed is a disposition on the part of businessmen to use it. The Business Advisory and Planning Council, organized by the Department of Commerce in 1933, attests the growing interest in the organization of economic planning

on the part of businessmen. The Conference of Code Authorities has revealed the abundance of the material at their disposal. These developments are without doubt proceeding in the right direction.

In general, the principles of organization which apply to organizing for planning apply also to organizing for the purpose of seeing that the plans are carried out. The most successful planning and supervising organization in the government of the United States is the General Staff of the Army. This organization has reached its present high stage of development in response to the urgency of events. The Spanish War first demonstrated effectively the need for a general staff. A competent writer on the subject has stated that "it showed the need in two directions; in the first place, the need for a central planning body, and in the second place, the need for some central body to supervise and coördinate the operations of otherwise independent army departments."³

Elihu Root, Secretary of War under Presidents McKinley and Theodore Roosevelt, made the creation of the General Staff one of the principal measures of his eventful term of service as the head of the War Department. "Our system," he wrote in one of his influential annual reports, "makes no adequate provision for the directing brain which every army must have to work successfully. Common experience has shown that this can not be furnished by any single man without assistants, and that it requires a body of officers working together under the direction of a chief and entirely separate and independent from the adminis-

³ John Dickinson, *The Building of an Army*, p. 252. For an instructive account of the history of the General Staff, see in this valuable work, Chap. VIII, "The Brain of the Army."

trative staff of an army. This body of officers, in distinction from the administrative staff, has come to be known as a general staff." Such a body of officers was duly created by the Act of February 14, 1903. Experience during the World War abundantly confirmed the lesson of the war with Spain, and the organization of the General Staff was accordingly further developed and strengthened by the National Defense Act of 1916 and the Army Act of 1920.

The General Staff is composed of officers detailed from the army at large under rules prescribed by the President. The number of officers so detailed at any one time was originally fixed at forty-five, and the period of service with the General Staff was limited to four years. After the expiration of his term the officer returns to the branch of the army in which he holds a permanent commission. During the World War the membership of the General Staff increased to more than one thousand, but the number of members was reduced by the Army Act of 1920 to ninety-two. The principal duties of the General Staff, as defined by law, are to prepare plans for the national defense, to investigate and report upon all questions affecting the efficiency of the army, to render professional aid to the Secretary of War and to the superior commanding officers, and to coördinate the action of the heads of the several branches of the military establishment. The General Staff is not authorized to issue orders of any kind except to its own subordinates, but of course may advise the Secretary of War to take any action which it may deem necessary and proper. It has supervision over all branches of the military establishment and may be called upon by the President to perform any duties not otherwise assigned by law. Thus the General Staff is

not an executive or administrative body; it acts only through the authority of others. As Secretary Root significantly remarked: "It makes intelligent command possible by procuring and rearranging information, and working out plans in detail; and it makes intelligent and effective execution of commands possible by keeping all the separate agents advised of the part they are to play in the general scheme."

The universally acknowledged success of the General Staff of the Army suggests the suitability of similar arrangements for planning, and seeing that the plans are carried out, in the civil establishment of the Federal government. A civil general staff might be composed of technicians and administrators detailed from the various executive departments and independent establishments for limited periods of service with the central planning and supervisory organization. It would have the duty of keeping informed concerning the operations of the government and advising the President with respect to the measures that should be taken to give effect to the general policies of his Administration. It would have no power to give orders to the heads of departments and independent establishments, but might properly exert its influence to bring about the necessary coördination between the activities of different administrative agencies. The creation of such a civil general staff seems to be the most important single step in developing an effective organization for national planning in the United States. It should not be difficult to create such a staff out of the materials which have been assembled under the National Emergency Council and the Industrial Emergency Committee, if the N. I. R. A. be transformed, as it should be, from an emergency measure into a permanent law of the land.

A systematic and comprehensive system of national planning cannot be definitely planned in advance. The best forms of organization for ordinary administrative planning in the several departments and independent establishments and for actually conducting the activities of the various administrative agencies of the Federal government will be determined by experimental methods. It is not necessary to know in advance what will be disclosed by the experience of the future. But it is desirable to know what general principles of administrative organization and procedure have been revealed by the experience of the past. Whatever may be the possibilities of a central planning and supervisory organ at Washington, all but a minute fraction of the technicians and administrators who will be required in the regular operations of government in a planned democracy will be employed in the operating branches of the governmental service.

There are three essential qualities in an organized body of technicians and administrators engaged in the public service in a class-conscious age. The first is absolute impartiality towards the various special interests within the state or, if this cannot be fully attained, at least genuine disinterestedness in conflicts of interest between the upper and lower classes. The second essential quality is a tolerable standard of honesty and efficiency throughout all ranks of the organization. The third, a high degree of intelligence and technical competence in its leading members. Each of these essential qualities may be encouraged by appropriate institutions. The first may best be encouraged by the separation of the executive and the judicial functions of government so as to subject the discretion of administrative officers to the reign of law. The second, by the establishment

of suitable administrative controls and independent audits so as to prevent or at least to punish dishonesty and intolerable inefficiency. The third, by the establishment of suitable agencies and methods for the recruitment and promotion of members of the organization, particularly those of the higher ranks. In short, the essential institutions in the organization of an administrative system for a high-powered government are an independent judiciary, a sound system of financial control and audit, and a sound system of examination for appointment to office.

The existing organization of the Federal administrative system is seriously defective in its arrangements for securing all three of these essentials. Consider, in the first place, the situation which exists with respect to the segregation of the judicial functions from the other functions of the administrative system. The separation of the judiciary from the other departments of government, as originally planned in the Constitution, was for many years carried out in a logical and consistent manner. But in recent years there has been a growing confusion of judicial with executive and even legislative powers. This confusion has been manifested particularly in the organization of administrative tribunals for the regulation of business practices of various kinds. For example, to speak only of permanent administrative agencies, the Interstate Commerce Commission and the Federal Trade Commission combine judicial with executive powers, and the Federal Reserve Board, Federal Power Commission, Federal Communications Commission, and Federal Securities and Exchange Commission, combine judicial with both executive and legislative powers. In addition to the combination of powers, two other circumstances complicate the existing

situation. One is the insecurity of tenure of many administrative officers exercising important judicial functions. The other is the lack of effective independent review, either judicial or administrative, of many important administrative decisions. The result is the frequent violation of the fundamental rule for administering justice that no man should be both judge and executioner in his own case. In default of adequate means for preventing administrative officers from taking the law into their own hands, long-cherished civil rights are placed in jeopardy.

The appropriate remedies for these defects have been clearly pointed out in a recent report of a committee of the American Bar Association.⁴ First, the judicial functions of Federal administrative tribunals should be separated from their legislative and executive functions. This might be accomplished either by creating a unified Federal administrative court or by setting up as many special administrative courts as might be necessary to take over the judicial functions of the various administrative agencies. The best model for a unified Federal administrative court is the French Council of State, though, as the Special Committee on Administrative Law takes care to point out, it would not be desirable to set up a copy of this institution in the United States without the modifications necessary to make it fit the American conditions. The Special Committee also suggests the abolition of the independent boards and commissions and transfer of their non-judicial functions to appropriate agencies within the regularly established executive departments. Without doubt the commission

⁴ See the Report of the Special Committee on Administrative Law, printed in the *Annual Report of the American Bar Association*, 1934, pp. 200-225.

form of organization possesses certain advantages in the experimental stage of a policy newly enacted into law, when it is necessary to vest a wide discretion in the officers charged with its administration, but in the long run, as the Committee convincingly argues, the regular forms of bureaucratic organization are superior to the commission form. Finally, the Committee advocates certain reforms in the procedure of administrative tribunals designed to facilitate the transaction of business with them by the public and to bring about a better understanding of the processes of government. There can be no doubt that the structure and functioning of the Federal administrative system could be greatly improved by the adoption of the remedies suggested by the American Bar Association's Committee.

The situation with respect to financial control and audit in the Federal administrative system is singularly confused. It would seem to be clear that large governmental administrative agencies, like large business bureaucracies, need two separate forms of financial control.⁵ One, which may be termed the internal control, is a regular function of the administration itself, and should be performed by an appropriate agency within the established framework of administrative organization. This is what is often called in American business circles the comptroller's or financial executive's job. It consists in the systematic examination of current receipts and expenditures and involves a continuous check on the actual conduct of financial affairs. The other form of financial control may be termed the external, and involves a periodic review of the results of

⁵ See George C. S. Benson, *Financial Control and Integration, a Study in Administration with especial Reference to the Comptroller-General of the United States* (1934), Chap. I.

financial administration by an independent agency. This is what is commonly called auditing by businessmen and is normally performed by professional auditors who report to the board of directors or to the annual meeting of the stock-holders. The internal control is designed to secure financial regularity in the proceedings of the administrative agencies; the external, to maintain their responsibility to the owners of the business or the citizens of the state.

These principles of financial control and audit are flagrantly violated in the organization of the Federal administrative system. The Comptroller General of the United States is supposed to be the principal agent of financial control. The office was created by the Budget and Accounting Act of 1921 and its incumbent was empowered both to exercise a current control of Federal receipts and disbursements and also to conduct a periodic audit of Federal accounts. In addition, he possesses regular administrative powers, such as the power to prescribe forms of accounting, and judicial powers, notably the power to interpret statutes and to pass upon the legal validity of financial operations. The independence of the Comptroller General is well secured by appointment for a long term and protection against removal without the consent of Congress. The office is rightly organized for the performance of the functions of external control. But it is wrongly organized for the performance of the functions of internal control. The mixture of these functions in one office makes for confusion of principle and in practice has resulted in the neglect of the function of external independent audit and in vexatious officiousness in the exercise of internal control. The situation is further complicated by the practice of rendering legal opinions and by the exercise

of judicial functions more appropriate for the Department of Justice and the courts of law. The segregation of the judicial functions and the separation of internal control from external audit would greatly improve the organization and operations of the Federal administrative agencies.

The chief defect in the existing system of recruitment for the Federal administrative system is the confusion of politics with administration. The chief executive properly selects his principal advisers from the ranks of those in whose political opinions he places the greatest confidence. Ordinarily this means selection from the membership of his political party, and the highest executive officers therefore are expected to be partisans. But the selection of subordinate officers for partisan reasons, though a convenient method of paying political debts, is as plainly hostile to the morale of the public service as nepotism and other forms of favoritism in private business to the morale of a great business bureaucracy. The evils of the spoils system in the lower ranks of the public service led to the introduction of the merit system more than half a century ago, and the increasingly efficient administration of the merit system has greatly improved the morale of the lower and middle grades of the public service. But the higher grades are still exposed to the baneful influence of "politics." It is especially among the positions which require the greatest intelligence and technical competence that political considerations weigh most heavily in the making of appointments. In the scientific services, particularly the medical and engineering, the importance of technical competence has tended to bring about an attention to fitness in the making of appointments,

and also a security of tenure, which compensate in some measure for the failure to put higher positions within the classified service. But in the principal positions, which do not require a special knowledge of any branch of the natural sciences, appointments continue to be made for political reasons and continuance in office has little connection with the quality of service rendered.

The direction in which improvement lies is best indicated by the policy of the government itself in connection with that branch of the Federal administrative system in which impartiality and technical competence is most highly esteemed. The judicial department is not ordinarily thought of as a part of the administrative system, but in fact it is organized in strict accordance with the best administrative principles. The judges, though not the marshals and other court officers, are appointed with a greater regard for technical competence than is customary in the executive branch of the Federal government, and enjoy under the Constitution a much greater security of tenure. The methods of recruiting the Federal judiciary, however, still leave much to be desired. Recommendations for appointment to the district courts and the circuit courts of appeal reach the President through the Department of Justice and in too many cases political considerations have exercised an undue influence. Appointments to the Supreme Court receive more careful consideration by the President and, in view of the political significance of some of its decisions, it is not desirable that political considerations should be entirely avoided in the making of appointments. At the present time four of the Supreme Court judges are men who had held high political offices before their appointment to the Court. Two of

them indeed stepped directly into the Court from the office of Attorney-General. Three others were lawyers who had held no regular public office before their appointment to the Court. Only two were promoted to the Supreme Court in recognition of distinguished service in inferior judicial offices. A greater number of promotions from the lower courts would make the judicial service more attractive to qualified men and in the long run should strengthen that branch of the Federal administrative system.

The executive branch of the Federal administrative system can be strengthened by similar methods. Two administrative agencies, which exercise important judicial powers and require exceptional knowledge and technical skill on the part of their members, are the Court of Claims and the Court of Customs and Patent Appeals. A few years ago one of these administrative courts was composed of one ex-Senator, three ex-Congressmen, and one ex-State Central Committee Chairman; the other, of three ex-Congressmen, one ex-State legislator, and one ex-member of another Federal administrative tribunal. It is not necessary to argue that the members of these courts were incompetent. In fact they commanded the confidence of those who had occasion to appear before them. But the general belief that promotion to such positions is denied to competent persons in inferior grades of the Federal administrative system cannot fail to impair the morale of the public service.

The merit system, as now administered by the United States Civil Service Commission, is excellent as far as it goes. But it does not go far enough. At present there are more than a hundred positions in the executive

departments and independent establishments which pay salaries of ten thousand dollars a year or more, that is, as much as or more than the salary of Congressmen and Senators. Too many of these positions have been reserved for lame-duck Congressmen and other politicians who claim rewards for partisan services. Such politicians, it may be conceded, are often capable of rendering satisfactory and even distinguished service in these positions. It is not desirable that they should be altogether excluded from the higher grades of the administrative organization. They bring a valuable kind of experience into the administrative organization and help to give it a sense of responsibility to the people which is indispensable. But self-respect and *esprit de corps* are also indispensable for the most competent and serviceable administrative organization. If the Federal administrative organization is to become equal to its responsibilities in a high-powered government, such measures as those which have given the judicial branch its high reputation should be adopted for the improvement of the executive branch. The Federal service already contains large numbers of public servants for whom the people of the United States should feel the greatest respect. It is capable of becoming an institution of which the people would rightfully be proud.

The ultimate test of a competent administrative organization for a planned democracy will be its capacity to produce new ideas. In the modern capitalistic state the production of new ideas has been generally deemed to be a function of private enterprise. The state, it is often said, invents nothing. This, of course, is true. But it is irrelevant. The business corporation also invents nothing. Inventions are made by inventors. They are the product of human ingenuity.

The capacity to invent is a mysterious quality of personality. Those who possess it find pleasure in its exercise. Like wit and humor, it shines best in use. New inventions will continue to be put out, even if the inventors can make no profit thereby. What is true of inventions is true also of new ideas of every kind. New ideas spring forth on all sides, though only those which are embodied in mechanical arrangements, or at least in some material and tangible form, are patentable. Ideas which affect the relations between men may be more important in organized society than those which concern merely the relations between things, but they are not patentable and often are not even profitable to their inventors. Business organizers and efficiency experts may be able to use their ingenuity to their personal advantage in a money-making world, but the originators of new and better social practices and the designers of more serviceable political institutions will find greater difficulty in exploiting their improvements on their private account. The flow of new and useful ideas in the realm of human relations as well as in that of material things demonstrates that the inventive faculty cannot be dependent for its activity upon any particular system of rewarding inventors. The practical problem of invention in the modern state is to create the conditions under which the inventive faculties of its people can be exercised most effectively and to direct their exercise into the most serviceable channels.

A great merit of the capitalist system has been the impetus which it has given to the production of new ideas. The process of invention especially has been greatly stimulated by the lure of profits. As long as the inventor can hope to gain a rich reward for useful inventions, he is most likely to be tempted to exert

his inventive faculty to the utmost. Indeed, the extraordinary flow of inventions has been the most striking phenomenon in the rise and growth of modern capitalism, and it is probable that the continuance of that flow is an essential condition of the maintenance of the capitalist system in a profitable form. But the increasing scale of business operations and the growing separation of the management from the ownership of capital diminishes the inventor's ability to exploit his inventions on his own account and reduces his prospect of profit. The inventor tends to become a salaried employee of a business corporation and the production of inventions a function of organized rather than individual enterprise. Business corporations establish research laboratories in the hope of finding a substitute for the stimulus of profit in the discipline of a planned organization of thought. Inventions remain the products of human ingenuity, but the process of invention becomes an incident of bureaucratic activity. In the heavily capitalized industries the corporate bureaucracies have demonstrated the superiority of systematic research over the spontaneous operations of individual inventors. But it is not only corporate bureaucracies which can organize the process of invention and maintain the flow of new ideas without the stimulus of personal profits for the individual inventors. Government bureaucracies can do the same.

Modern bureaucracy has served the public well by developing the technique of organized thought. Research workers in the laboratories of great business corporations, as well as in the laboratories of universities and other non-profit-seeking agencies, have maintained the flow of new ideas in channels which the solitary

private inventor could hardly enter.⁶ Corporate bureaucracies, necessarily mindful of the prospects for the profitable utilization of their inventions, have been most successful in the development of new ideas capable of immediate application to the wants of society. But some form of bureaucracy not dependent upon the chances of an early profit seems best suited to the requirements of the inventive process in those industries in which the returns are most remote. For the organization of thought in those fields in which the products of new ideas are not patentable or otherwise susceptible of exploitation for profit, government bureaucracy seems to be clearly superior to corporate. There is no reason to suppose that the growing importance of government bureaucracy constitutes a threat to the flow of new ideas. On the contrary, government bureaucracy commands the best facilities for the efficient organization of thought in the realm of human relations. Its growing importance gives the strongest security for the production of valuable new ideas concerning the structure and processes of government in a planned democracy.

The conversion of the low-powered government of the modern capitalistic state into the high-powered government which mankind has a right to expect from modern science and technology is a task which can be satisfactorily performed only by a competent body of government scientists and public business administrators. Statesmen of courage and vision will always be ready to take the responsibility for political experiments, but in the modern state the increasing com-

⁶ See, for a list of research laboratories and descriptions of their work, National Research Council, *Industrial Research Laboratories in the United States* (Washington, 1927).

plexity of government renders such statesmen increasingly dependent upon the collaboration of intelligent and efficient scientists and administrators. If the governmental art be left exclusively to the statesmen and politicians, there is danger lest the state become too static. A dynamic state calls for the employment of government officials, trained in the management of public business and protected against the assaults of special interests. Such government officials, like corporate officials, are likely to be hospitable to the experimental attitude. Properly encouraged by statesmen, they are capable of supplying a progressive administration of the public business. When Elihu Root, serving as Secretary of War under Theodore Roosevelt, founded the General Staff of the American Army, he introduced an essential improvement in the organization of the military establishment. The General Staff of the Army has demonstrated how the functions of planning, and seeing that the plans are executed, can be efficiently performed by a competent administrative organization. The principles of sound public business administration can be employed as well in the civil as in the military service, and the responsibility of the service to the public can be no less successfully maintained by competent statesmen. It is this combination of competent statesmanship and an efficient administrative system which promises to give to government in a planned democracy the dynamic character that would be the decisive proof of its superiority over the government of the casually democratic state.

The proper relationship between statesmen and administrators in a planned democracy need not be fixed in advance. It is enough to know that the administrators should have a greater share in the distribution of power

than in the contemporary state. They should play a leading part in the conduct of public affairs, and to that end the wisest and ablest men should be drawn into the public service. Such men can command the confidence of competent statesmen and can secure for the administrative organization its proper place in the process of government. The ultimate limit to the development of administrative power is set by the requirement that the administrative organization be responsible to the public for the use of its power. This responsibility cannot be directly enforced without sacrificing that neutrality in the struggle of classes which is the price of power for administrators. Administrative responsibility must be enforced indirectly through the political leaders with whom the administrators are associated in the process of government. Political leaders, whose tenure of office is rightly dependent upon the popularity of their leadership, may be held directly responsible for the measures to which they lend their authority. They must therefore have the decisive voice in the determination of public policy pending the final appeal to the people themselves. The power of technicians and administrators springs from their practical capacity to furnish statesmen and politicians with useful advice. They govern, in so far as they do govern, through moral agency rather than legal authority. They must be content to give up the appearance of power for the sake of its substance. Within these limits they may develop to the utmost the power which the knowledge of modern science and technology can give them.

There is no incompatibility between the growth of administrative power and the preservation of democracy. But it is evident that government in a planned democracy must differ from that in the modern capi-

talistic state. There will be two important differences between them. First, in a planned democracy there will be a general recognition of the existence of classes within the state, and of class-consciousness in politics, and a general demand on the part of the middle class that the special interests of all classes be subordinated to the common interests of the whole body of people. Secondly, there will be a general recognition of the necessity for a vigorous and competent administrative organization in the government of the state, and of the propriety of its sharing in the power of the politicians. Competent politicians, practicing middle-class politics, should be capable of balancing the interests of the upper and lower classes so as to give a planned democracy the necessary stability. But only a well-organized administrative system can give its government the indispensable technical skill for attaining a proper degree of serviceability. Planned democracy, like casual democracy, will derive its just powers from the consent of the governed. But the union of political leadership based upon middle-class politics with an efficient yet responsible administrative organization will promote a development of those powers far beyond what has been possible under the traditional political system. In short, a planned democracy will be a kind of state in which modern science and technology will at last find their proper place in the art of government.

The reconciliation of democracy and a scientific system of public business administration has been delayed by the unscientific use of political terms. Democracy, regarded as a name for a kind of state or of government, has undergone strange vicissitudes. Aristotle, who first tried to give the word a genuinely scientific meaning, defined a democracy as a state in which all the citizens

are free and equal and the majority rule. Such a majority, he believed, would ordinarily consist of the poor, and a democratic government would ordinarily, therefore, be a government dominated by the poor. If there were no restraints upon their power, he also believed, the poor would use it primarily in their own interest. Hence an Aristotelian democracy corresponds to what is now called a dictatorship of the proletariat. What we now call a democratic government is a kind of government in which wealth gives to the rich many practical advantages in the pursuit of power, and in which consequently it is not easy to determine which have the greater share in the power, the rich on account of their wealth or the poor on account of their numbers. The rich have more power than they would be entitled to on the strength of their numbers alone; the poor have more power than the rich would like to concede to a class so unequal to themselves in wealth. A modern democracy is a mixed state in which both rich and poor are strong enough to prevent each other from monopolizing the power and making their supremacy intolerable.

There is a further complication in the classification of modern democracies. In what we now call democracy many of the offices, including some of the most important, are distributed according to merit regardless of wealth or popularity. Such a distribution of offices, according to Aristotle, is a special characteristic of an aristocratic government. Merit, he affirms, is the distinguishing principle of aristocracy, as wealth is the principle of oligarchy, and freedom and equality that of democracy. What we now call democracy, therefore, Aristotle would not have called democracy, but a mixture of democracy and oligarchy and in some measure also of aristocracy. If the principle of merit were ap-

plied in a very considerable measure to the organization of the government, Aristotle would have described the resulting combination of governmental forms as a kind, though not the most perfect kind, of aristocracy. "The union of the three," he wrote,⁷ "is to be called aristocracy or the government of the best, and more than any other form of government, except the true and ideal, has a right to the name." In other words, modern democracy is a kind of aristocracy.

The further extension of the merit system in the government of the modern democracy would make it a better kind of aristocracy. This is the unescapable conclusion of the Aristotelian logic. Planned democracy should be a truly good kind of aristocracy. But aristocracy, like democracy, is a word whose meaning has suffered many changes in the course of history. It is now generally associated with the defunct pretensions of former privileged classes which have been ruined in the struggle for power. Like democracy and bureaucracy, aristocracy has become a word of dubious value in the scientific discussion of modern politics. But like them also it is a convenient word when endowed with a definite meaning. The further extension of the merit system and in general the better organization of national planning mean the attraction of wiser and abler men into the public service and the development of the power of the whole system of government. This is the essence of true aristocracy.

The merit system should be extended and organization for national planning improved until the public service contains a due share of the wisest and ablest members of the state and the power of technicians and

⁷ Aristotle's *Politics*, Book IV, Chap. VIII. See *The Works of Aristotle*, (Ross ed.), Vol. X, 1294a 22-24.

administrators is fairly matched with that of statesmen and politicians, corporation executives, and labor leaders. Then in truth it can be said that American government has become really aristocratic. Then only will there be adequate security that competent statesmen can keep the balance steady between the different classes in the struggle for power and maintain the equilibrium of the state in a class-conscious age. Then at last democracy should justify those who still believe that science and technology can bring great improvements in the practical art of government and that by carefully organized planning political and administrative power can be developed to meet the exacting requirements of the modern world.

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